ACCOUNTING

BY

L. CUTHBERT CROPPER, F.C.A.

Late Senior Examiner in Bookkeeping to the Royal Society of Arts; the London Chamber of Commerce; the Incorporated Secretaries Association, and Occasional Examiner to the Civil Service Commissioners, etc.

FIFTH EDITION

(REVISED AND RE-SET)

BY

F. D. MORRIS, F.C.A.

(Of Knox, Cropper, & Co.)

An Examiner in Book-keeping to the Royal Society of Arts, etc.

AND

A. K. FISON, B.A., F.C.A.

(Of Knox, Cropper, & Co)

An Examiner in Book-keeping to the Royal Society of Arts, the London Chamber of Commerce, and the Incorporated Secretaries Association

London

MACDONALD AND EVANS

8 JOHN STREET, BEDFORD ROW, W.C.1

1937

MADE AND PRINTED IN GREAT BRITAIN
BY UNWIN BROTHERS LIMITED, THE
GRESHAM PRESS, LONDON AND WOKING

PREFACE

THE author of this book is not to be numbered amongst those who decry purely theoretical study. On the contrary, it is his opinion that until the student has carefully explored the theory of a subject in all its bearings, he is not in the way to become a really reliable practical exponent of it, certainly he is not equipped to the point when any new advance in practice may be expected of him. Nothing can be more sterile than the endless logomachy to which, in a certain type of mind, the study of theory often descends; but then nothing is more dangerous than the all too facile handling of large questions by those who have acquired their knowledge by rote, and can give no reasons for their acts or decisions.

The unreality of any antithesis between theory and practice is apparent when we consider the meaning of the word "accounting." Though it is variously used, the popular understanding of the word, which defines it as the *practical application* to account-keeping of the *science or theory* of book-keeping is perhaps the truest, and this is the meaning that is suggested by a perusal of the syllabuses and examination papers of the various examining bodies. There we see that theory and practice are not antithetical, but complementary.

In the examinations of some of these bodies, accounting is the subject of a separate paper which follows upon the advanced examinations in book-keeping. In the accounting paper, it is assumed that the student has already acquired an adequate knowledge of book-keeping by double entry. He is not required to prove his capacity to prepare Trading and Profit and Loss Accounts, Balance Sheets, or similar statements, but he is expected to be able to apply this capacity, and his general knowledge of double-entry book-keeping, "to the varying needs of commercial undertakings, charities, etc.," and to adapt both "to the differing needs of private traders, joint-stock and other companies, and institutions." He is also expected to possess adequate knowledge of such general matters of accounting as

are involved in the proper treatment of Capital and Revenue Expenditure, Reserves, Sinking Funds, Depreciation and Goodwill, and of statistical records and returns "rendered necessary by Statute, or by the special needs arising out of the formation and conduct of joint-stock companies." The typical accounting syllabus also embraces such subjects as the Double-Account System and its application to the accounts of Parliamentary and other companies; Foreign Exchanges; Hire Purchase, Branch, Departmental, and Royalty Accounts; Cost Accounts; Partnership Accounts; Bank and Insurance Accounts; Insolvency Accounts and kindred subjects.

The author cannot but be aware, especially when he recalls his own early studies, that the student is often in a peculiar difficulty in selecting the material for study, particularly if he lacks the guidance of a competent instructor. Happily, first-class teachers are becoming more and more available, thanks to the new spirit abroad in technical education, due largely to the work and influence of the Inspectors, the Technical Advisers of the Education Committees throughout the country, and to the newer universities and their schools in Birmingham, Leeds, Liverpool, London, Manchester, Nottingham, Reading and other cities. Still, for all that, the selection of text-books is often a troublesome matter. If the student yields to the seduction of compilations vulgarly and ludicrously claiming to meet all his needs from the alpha of book-keeping to the omega of accounting, the result is usually mental dyspepsia induced by the absorption of a mass of excerpts, which, whatever their value considered as integral parts of the treatises whence they were derived, have been so depreciated by unskilful use as, in these compilations, no longer to have any educational or commercial value. If, turning from the inanity of the scrap-books, the student proceeds to the sources themselves, it is not surprising that the task of extracting the things that matter from the wealth of specialised literature available often proves too much for him, and that his work wears an abstract air, and is notably innocent of practical detail.

The present treatise, then, is an attempt to satisfy requirements already clearly defined by the syllabuses; to provide the commercial student with practical detail, and yet to keep on the broad highway of average experience; to show him how the theory in which he has been grounded finds its expression in practice, and how practice often dulls the cutting edge of theory; in short, to place at his disposal a manual that shall assist him to the fuller understanding of a subject which calls as much for

constant adaptation as for a mastery of its principles, and thus enable him to meet not only the educational needs of the class-room, but also the problems that will confront him in the world beyond the class-room. To do this the more effectively, re-iteration has been deliberately employed, points made in one connection being repeated in another.

A note of personal experience may perhaps be obtruded. As an examiner, the author has been responsible for the marking of over 350,000 papers, and in his judgment large numbers of candidates wholly fail, or lose distinction because, through lack of practice, they are unable to express the knowledge they possess within the examination time limit. In order to afford the student material for practice there has been included in this treatise a collection of examination questions which is probably unique. The wise student will work as many of these questions as he can, and work them under the same conditions as are imposed in the examination room.

The author's thanks are due, and are here accorded to Mr. F. Porter Fausset, M.A., LL.B., Barrister-at-Law, and to Mr. E. B. V. Christian, LL.B., Solicitor, for revising the legal portions of this work.

SPENCER HOUSE,
SOUTH PLACE, E.C.
October 1, 1923

PREFACE TO THE FIFTH EDITION

THIS edition has been thoroughly revised to conform with the *Companies Act*, 1929. It has also been enlarged and re-set.

F. D. MORRIS
A. K. FISON

September, 1931.

TABLE OF CASES CITED

PAGE

Adams *v.* Thrift, 1915 119
Allhusen *v.* Whittell, 1867 . . . . 996, 997, 999
Ammonia Soda Co., Ltd., *v.* Chamberlain and Others, 1918
357, 362, 367, 370
Andrews *v.* The Gas Meter Co., 1897 138
Anglo-Cuban Oil Bitumen and Asphalt Co , 1917 132
Anglo-French Co-operative Society, Ltd., 1884 441
Anglo-French Music Co. *v.* Nicol, 1921 462
Artisans' Land and Mortgage Corporation, 1904 . . . 256, 268
Ashley & Smith, Ltd. 442
Atwood *v.* Maude, 1868 525
Bale *v.* Cleland 248
Bartlett *v.* Mayfair Property Co., 1898 133
Barton *v.* L.N.W.R. Co., 1890 180
Beddington, *Re*, 1900 987
Bellerby *v.* Rowland and Marwood's Steamship Co., 1902 . 280
Beeton, *Re*, 1913 441
Bevan *v.* Webb, 1901 523
Bisgood *v.* Henderson's Transvaal Estates, Ltd., 1908 . . 286
Blackburn Building Society *v.* Brooks, 1882 144
Bloomenthal's Case, 1897 193
Bolton *v.* Natal Land and Colonisation Co., 1892 . . . 353, 354
Bolton, *Ex parte* North British Artificial Silk, Ltd., 1930 . . 137
Bond *v.* Barrow Hæmatite Steel Co., 1902 . . . . . 256, 355
Brazilian Rubber Plantations, *In re*, 1911 460
Brett's Case and Morris's Case, 1873 419
Brooker, *Re*, 1926 996
Bumpus, *Re*, 1908 613
Burnham *v.* Atlantic and Pacific Fibre, etc., 1928 268
Cairney *v.* Back, 1906 . . . . 411, 412
Campbell *v.* Australian Mutual Society, 1909 155
Collaroy Co. *v.* Gifford, 1928 462
Cotnam *v.* Brougham, 1918 132
Cox *v.* Hickman 515
Crutwell *v.* Lye, 1810 62
David *v.* Matthews, *In re*, 1899 525
Dovey *v.* Cory, National Bank of Wales Case, 1901 . 353, 361, 460
Dowse *v.* Gorton, 1891 970
Drogheda Steam Packet Co., 1903 268
Earl of Chesterfield's Trusts, *Re*, 1883 . . . . . . 996, 997
East *v.* Bennett Bros., 1911 156

PAGE
Edelstein v. Schuler, 1902 . . . . 144, 270
Edwards v. Ransomes & Rapier, 1930 195
Eley v. Positive Assurance Co , 1876 158
Elliott v. Elliott 544
Fireproof Doors, 1916 156
Foster v. The New Trinidad Lake Asphalte Co , Ltd., 1901 . 362
Garner v Murray, 1904 . . . . 529, 551, 553, 560
Geen, Re, 1917 644
General Auction Estate Co. v. Smith, 1891 143
Hale & Co. v Alexandria Water Co., 1905 172
Hamlyn v. Houston, 1903 519
Harris, Re, 1914 1000
Henderson v. Bank of Australasia, 1890 210
Hill, *Ex parte In re* Bird 590
Hiram Maxim Lamp Co., 1903 423
Hirsche v. Sims, 1894 460
Hirth, *In re*, 1899 589
Hoare & Co., 1904 236
Hopkinson v Mortimer, 1917 136
Howe v. Earl of Dartmouth, 1802 . . . . 970, 996
Kelantan Coconut Estates, 1920 156
Kendall v. Hamilton, 1897 519
Kingston Cotton Mill Co., Ltd., 1896 . . . . . 214, 215, 377
Lee v. Neuchatel Asphalte Co., Ltd., 1889 . . 353, 354, 358, 359
Leeds Estate, etc , Co. v. Shepherd, 1887 460
Lock v. Queensland Investment and Land Mortgage Co., 1896 135, 239
London and General Bank, *In re*, 1895 . . . . . 214, 216, 255
Looker v. Wrigley, 1880 144
Louisiana and Southern States Real Estate and Mortgage Co., *In re*, 1909 281
Low v Bouverie, 1891 974
Lubbock v. British Bank of South America, 1892 362
Metropolitan Coal Consumers' Association v. Scrimgeour, 1895 129
Midland Counties Bank v. Attwood, 1905 438
Monks v. Fox's Exors., 1927 993
Morrison v. Trustees and Executors, etc., Corporation . . 137
Moseley v. Koffyfontein Mines, 1904 271
Muirhead, Re, 1916 996
National Bank of Wales, Ltd., *In re*, 1899 237
New Chile Gold Mining Co., *In re* 136
Newspaper Proprietary Syndicate, 1900 441
Newton v Birmingham Small Arms Co., Ltd., 1906 . . . 97
Norey v Keep, 1909 523
Oldham, Oldham v Myles, Re, 1927 999
Oxford Benefit Building Society, 1886 460
Oxley, *In re*, 1914 970
Peel v. L.N.W R. Co , 1907 155
Pender v. Lushington, 1877 153
Perkins, Re, 1907 999
Pilkington v. United Railways, etc., 1930 172
Poole v. National Bank of China, 1907 281

PAGE
PORTUGUESE CONSOLIDATED COPPER MINES, LTD., 1889 . . . 165, 211
POWELL *v.* LONDON AND PROVINCIAL BANK, LTD., 1893 193
POYSER, *Re*, 1910 999
RANCE'S CASE, 1871 313
REGENT FINANCE & GUARANTEE CORPN., LTD., 1930 424
REPUBLIC OF BOLIVIA EXPLORATION SYNDICATE, *In re*, 1914 . . 216
ROUTLEDGE, GEORGE, & SONS, *In re*, 1904 150
SALOMON *v.* SALOMON & CO., 1897 202
SAMSON, *Re*, 1906 1000
SEVERN AND WYE RAILWAY COMPANY, *In re*, 1896 256
SHERWELL *v.* COMBINED INCANDESCENT MANTLES SYNDICATE, 1907 118
SINCLAIR *v.* BROUGHAM, 1914 423
SIMONSON, *Re*, 1894 644
SKYRING *v.* GREENWOOD, 1825 792
SOCIÉTÉ GÉNÉRALE *v.* TRAMWAYS UNION, 1885 182
SPACKMAN *v.* EVANS, 1868 214
SPANISH PROSPECTING CO., LTD., 1911 356
SPEIGHT *v.* GAUNT, 1883 971
SPRINGBOK AGRICULTURAL ESTATES, *In re*, 1920 462
SQUIRE CASH CHEMIST, LTD., *v.* BALL, BAKER & CO., LTD., 1911 . . 216
STACEY & CO., *v.* WALLIS, 1912 131
STAPLEY *v.* READ BROS., 1924 . . . . 67, 360, 370
TASKER, W., & SONS, *In re*, 1905 150
TEXAS LAND & MORTGAGE CO , *v.* HOLTHAM 248
THAIRLWALL *v.* G N R. CO., 1910 266
THELLUSSON *Ex parte* ADDY 424
THOMPSON, W. N., *Re*, 1908 999
TOLLEMACHE, *Re* FERRES AND PUBLIC TRUSTEE, 1930 987
TORBOCK *v* LORD WESTBURY, 1902 210
TREVOR *v.* WHITWORTH, 1888 280
VERNER *v.* THE GENERAL AND COMMERCIAL I 'VESTMENT TRUST, LTD.,
1894 . . . . 353, 354, 359
WAKEFIELD ROLLING STOCK CO., 1892 , ... 423
WATSON, W., & SONS, LTD., *In re*, 1891 434
WEBB, H. J., & CO., *In re*, 1922 442
WEDDERBURN *v.* WEDDERBURN, 1856 971
WEBB, HALE & CO. *v.* ALEXANDRA WATER CO., 1905 171–2
WHALEY BRIDGE PRINTING CO. *v.* GRANT 130
WHITAKER, *Re*, 1901 1000
WHITEHOUSE & CO , *In re*, 1878 419
WILLS, WILLS, HAMILTON, *In re*, 1915 999
WILMER *v.* MCNAMARA, 1895 . . . . 67, 353, 355, 375

CONTENTS

CHAPTER		PAGE
I.	Single Entry. Slip System of Posting. Loose Leaf Ledgers	1
II.	Trading, Working, and Manufacturing Accounts. Revenue, Receipts and Payments, and Income and Expenditure Accounts. The Graphic Presentation of Business Statements	20
III.	Capital and Revenue. Goodwill. Depreciation. Sinking Funds. Reserves	55
IV.	Joint Stock Companies—1. Legal and Statistical	117
V.	Joint Stock Companies—2. Company Accountancy	228
VI.	Joint Stock Companies—3. The Annual Report and Accounts	346
VII.	Joint Stock Companies—4. Dissolution	411
VIII.	Joint Stock Companies—5. The Financial History of a Limited Company	477
IX.	Partnership	514
X.	Insolvency	588
XI.	The Double-Account System	660
XII.	Hire-Purchase Accounts.—Royalty Accounts	719
XIII.	Store and Cost Accounts	745
XIV.	Bank Accounts	791

CHAPTER		PAGE
XV.	ASSURANCE ACCOUNTS	832
XVI.	BRANCH ACCOUNTS. DEPARTMENTAL ACCOUNTS .	885
XVII.	FOREIGN EXCHANGE	925
XVIII.	EXECUTORS AND ADMINISTRATORS	965
XIX.	INCOME TAX	1064
	INDEX	1101

ACCOUNTING

CHAPTER I

SINGLE ENTRY. SLIP SYSTEM OF POSTING. LOOSE LEAF LEDGERS

BEFORE proceeding to consider the more important subjects, it will be convenient to refer briefly to three minor matters, which sometimes appear in examination syllabuses, but which do not deserve a chapter to themselves.

SINGLE ENTRY.

The author has frequently been asked by teachers to advise them how they should teach this system of book-keeping. The answer is "Don't." Were it not for the fact that questions are sometimes asked about it in examination papers, and that it is still to be met with in practice, the subject might safely be dismissed.

Its Character and Its Drawbacks.—It is, perhaps, an abuse of language to speak of character and system in connection with that which so conspicuously lacks both. Any method of book-keeping that does not give effect to the twofold aspect of every transaction can be called single entry, but, logically, only a method which confines the account keeping solely to the personal side of the trading transactions, no nominal or real accounts whatever being kept, is really entitled to the name. Experience, however, shows that even the most hardened adherent to single entry is compelled to keep a Cash Book, or to employ some substitute, e.g. the Bank Pass Book, for recording cash receipts and payments. When a Cash Book is kept *and posted*, double-entry methods are to that extent employed. In practice, pure single entry is practically unknown, the method passing by that name being a composite of single and double entry. The obvious disadvantages of single entry are that :—

(1) It fails to supply the data necessary for the compilation of Trading and Profit and Loss Accounts. No information of the *source* either of profits or losses is available, and comparisons with previous periods are impossible.

(2) It affords no arithmetical check on the accuracy of the book-keeping, and, therefore, fraud is less easily detected.

(3) The results arrived at are necessarily approximate and unreliable.

As a matter of theory it may be admitted that if, in a Balance Sheet prepared upon a single-entry basis, the assets and liabilities are correctly assessed, the surplus or deficiency will represent the actual profit or loss for the period. This result, however, is rarely achieved for the reason that no reliable data are available owing to the lack of scientific records. In any case, as stated above, no information is forthcoming as to the directions in which the profit has been made or the loss incurred.

Preparing Accounts from Single-entry Books.—When it is necessary to prepare accounts from books kept by single entry, one of two courses may be followed: (*a*) the books may be converted into double-entry form, or, if that is impracticable, (*b*) statements of affairs may be prepared at the beginning, and at the end of the period under review.

In the former case, it will be possible to present Trading and Profit and Loss Accounts in the usual form; in the latter, the profit for the period is arrived at by the crude process of comparing the Capital at the close with that at the beginning of the period, after having made any necessary adjustments for drawings, additional Capital paid in, etc. In both statements the Capital figure is the difference between the assets and the liabilities. If the final Capital, after adjustment, exceeds the initial Capital, it is assumed that the difference represents profit for the period; if it is less, that the deficiency represents the loss. The preparation of these statements will be easy or difficult according to the information available, the accuracy of the records, and, frequently, the tenacity of the proprietor's memory! In any case the result can only be regarded as approximate, though it may be admitted that, theoretically, if all the necessary material is available, and is correct, then the profit determined by this method will also be correct.

Conversion of Single-entry Books.—The conversion of the books to double-entry principles, where practicable, will be effected by preparing a statement of affairs at the beginning of the period, and opening the books on that basis. Subsequent transactions will be arrived at mainly by analysing the Cash Book, and the personal accounts of debtors and creditors in the Ledger. If purchases and sales have been recorded reliably, the information can be used for the nominal accounts under these headings; if not, the personal accounts must be analysed in some such way as that shown on pp. 4–5. The cross-casting of these sheets will prove the accuracy of the analysis, and test the accuracy of the Ledger. The totals of the various columns will be posted to the credit or debit of the relative impersonal accounts. It will be found useful to open "total" debtors' and creditors' accounts in the manner employed in self-balancing ledgers. If a Cash Book is in use, it will probably have been posted so far as it relates to the personal accounts. These postings should be carefully checked, and any items not posted should be extracted in the manner indicated as under, or by some similar method. If Bill Books have been kept, totals must be

made and posted to the Bills Receivable and Payable Accounts respectively. The information collected in this way will be journalised and posted, and a Trial Balance on double-entry principles can then be drawn up. If no Cash Book has been kept, analysis of the Bank Pass Book will provide the required particulars. Should the student desire to pursue the subject in fuller detail he will find the material in *Book-keeping and Accounts*, Chap. XIII, and in *Higher Book-keeping and Accounts*, Chap. I.

THE SLIP SYSTEM.

The slip system is a particular method of posting some, or all, of a set of books kept on double-entry principles; it is not a system of book-keeping, though it is sometimes referred to as if it were.

Its Utility in Bank Book-keeping.—A bank affords the most notable instance of the advantages of this method of posting. The nature of a banker's business, and the perpetual risks run in conducting it, make it imperative that the current accounts of the customers shall be written up from hour to hour, but the various Cash Books and Journals in which the receiving and paying cashiers record the day's transactions are in constant use, and are not, therefore, available for the Ledger keepers till the close of the day. That being so, the original documents filled in by the customers are employed as much as possible. The paying-in slips handed to the cashiers are detached from the cash articles to which they relate, and, after being recorded by the receiving cashier, are passed on to the Waste Book keepers for analysis, then to the Ledger keepers for posting, and, finally, to those who write up the Bank Pass Books. In like manner, the cheques drawn by customers, when they have been presented in due course at the bank, are utilised for writing-up customers' debits. Transactions not covered by cheques, or paying-in slips, are posted by means of dockets made out usually by the bank staff, but sometimes by the customer. Some of these dockets are illustrated below:—

THE UNION BANK LIMITED
967 CORNHILL, E.C.
June 28, 19..
U.B. Ltd.
DEBIT *George Dickson*, Current Account for transfer to Deposit Account
£100 : 0 : 0
L. C. C.
Accountant

This docket results from instructions received by the bank from George Dickson to transfer £100 from his Current Account to Deposit Account.

ANALYSIS OF DEBTORS' LEDGER.

(Debit Side)

Dr.

Ledger Folio.	Name.	Opening Dr Balance as per Statement of Affairs			Goods Sold			Other Items: Dishonoured Bills, etc			Transfers.			Total.		
		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.

(Credit Side.)

Cr.

Cash Received.			Bills Receivable.			Discount Allowed.			Returns and Allowances.			Other Items: Bad Debts, etc.			Final Balance.			Total.		
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d	£	s.	d.

ANALYSIS OF CREDITORS' LEDGER.

(Debit Side.)

Dr.

Ledger Folio.	Name.	Cash Paid.			Bills Payable.			Discount Allowed.			Returns and Allowances			Other-Items.			Transfers.			Final Balance			Total.		
		£	s.	d.	£	s.	d.	£	s.	d.	£	s	d	£	s.	d	£	s.	d	£	s.	d.	£	s.	d.

ANALYSIS OF CREDITORS' LEDGER (*continued*).

(*Credit Side*) *Cr.*

Opening Cr. Balance as per Statement of Affairs.			Goods Purchased.			Other Items.			Transfers.			Total.		
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.

ANALYSIS OF CASH BOOK.

Dr. (*Debit Side*)

Item.	Folio	Cash Sales.			Debtors' Ledger			Creditors' Ledger.			Capital Receipts.			Sundry Receipts			Discount.		
		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d	£	s.	d.	£	s.	d.

(*Credit Side.*) *Cr.*

Item.	Folio.	Partners' Drawings.			Salaries.			Wages.			Trade Expenses.			Capital Expenditure.			Discount.			Creditors' Ledger.			Debtors' Ledger.			Cash Purchases.		
		£	s.	d.	£	s.	d.	£	s.	d	£	s.	d.	£	s.	d	£	s.	d.	£	s.	d.	£	s.	d.	£	s	d.

June 30th, 19..

Debit *John Smith*

£1 : 4 : 9

£100 to date

For *Interest on Loan*

For National Provincial Bank Limited

L. C. C.

This docket is made out by the bank staff in order to debit John Smith with interest on his loan to date.

January 28th, 19..

Debit *Robert Green*

£ *: 10 : 6*

For *Charges on account 6 months ending December 31st, 19..*

For Westminster Bank Limited

L. C. C.

This docket is made out by the bank staff for the purpose of debiting Robert Green with a charge of 10s. 6d. for keeping his account for 6 months owing to the fact that, otherwise, his account would not be profitable.

January 31st, 19..

Debit *John Smith*

£ : *: 9*

For *Commission on Scots Cheque Collected*

For London and Universal Bank Limited

L. C. C.

A cheque payable in Scotland has been collected for John Smith and, by means of the above docket, he is debited with 9d. commission for the trouble and expense involved.

	February 2nd, 19..
Debit *John Jones*	
£ : : *6*	
For *Postage and Registration of Pass Book*	
For London and Provinces Bank Limited	
	L. C. C.

John Jones having asked his banker to post his Pass Book to him is charged with postage and registration.

	June 30th, 19..
Debit *John Robinson*	
£ : *16* : *8*	
For *100 Cheque Book Crossed*	
For United Counties Bank Limited	
	L. C. C.

John Robinson called at the bank and took away with him a new cheque book. Hence the debit slip for the cost of the stamps. Usually, when a customer requires a new cheque book, he fills up and sends to the bank the printed request form bound up in the cheque book. This form is then used as the posting slip.

Fuller details of the employment of slip posting are given in the chapter dealing with Bank Book-keeping.

Its Limited Use in Other Businesses.—Slip posting is universally employed by banks, but is not frequently encountered in commercial houses. It is sometimes, however, employed to a limited extent by ordinary commercial firms in connection with the subsidiary books and is growing in popularity, particularly in America. A common instance of posting direct from original documents is the practice adopted by some limited companies of pasting transfers in guard books and posting direct from them to the share registers.

In some soft goods warehouses, where credit sales may average several thousands a day, carbon books are kept containing sales notes in triplicate, one being handed to the customer, one to the Ledger keepers for posting, the third remaining in the book

Reference numbers, or other identification marks, are recorded in the Ledger, and the slips are filed in a manner convenient for reference. If a book typewriter is employed, the invoice and the debit entry in the customer's personal account are written by the same operation. In cases where several Sales Ledgers are employed, the invoices are sorted to correspond with the various Ledgers (A—D, E—G, etc) and totalled monthly by means of an adding machine, and the resulting total is passed through the Journal to the Sales Account and the sectional balancing account, e.g. "A—D Debtors' Ledger Adjustment Account Dr. to Sales Account," and so on.

Sometimes, on entering the warehouse, the customer receives a sale card, on which his purchases in the different departments are entered successively, each department also handing the customer its own sale note. These documents are deposited when leaving, and, the goods having been parcelled in the packing-room, the notes are passed to the entering-room, where an invoice is made out, and the sales are dissected as between the various departments, only brief particulars being entered in the Sales Journal. The notes are then tabbed together as a complete record, posted by the Ledger clerks, and filed for reference.

Some of the advantages accruing from these methods are: (*a*) the original sale notes can be very easily referred to by means of the Ledger references; (*b*) the work can be split up conveniently, and its wider distribution permits the posting to be kept up to date; (*c*) fewer subsidiary books are required, and error due to the duplication of entries is less likely to arise.

In some businesses, no Sales Journal is kept. The invoice forms are bound in duplicate in large books, two or more copies at an opening The original invoices are torn out and forwarded to the customers, while the carbon duplicates remain in the books and form the Sales Journal. These are posted by the Ledger keepers in the ordinary way. The total of each invoice is usually entered under its number in a book specially ruled to meet analysis requirements for the various departments, or alternatively, printed summary sheets, suitably ruled, are provided at the end of the invoice books. Whichever method is adopted the monthly totals afford the necessary details for the nominal accounts.

Retail businesses, where the great majority of the transactions are for cash, are sometimes obliged to give credit for short periods, and then it is not uncommon to find the carbon copy invoices filed in drawers to serve the purpose of a personal Ledger, in similar manner to the card system described below. This method is not to be recommended, except where the credit given is short, and credit transactions are the exception and not the rule.

These methods, and their modifications, are often very convenient, and effect real economy of time and labour, but there is always the drawback that in the hands of careless persons they afford many opportunities for error, and, occasionally, for fraud.

THE LOOSE-LEAF OR CARD SYSTEM PERPETUAL LEDGERS.

This also is not a system of book-keeping, but a method of keeping accounts on double-entry principles by means of loose cards filed in cabinets, or books composed of detachable leaves, instead of the more usual bound books.

Its Advantages and Its Drawbacks.—(*a*) In a business where a large number of small credit sales are made, the Ledger accounts, if kept in bound books, become unwieldy and necessitate constant transfer to new folios and the frequent opening of new Ledgers. This involves waste of time and material. When loose-leaf Ledgers or cards are employed, full leaves can be replaced by fresh blanks, and dead accounts can be removed. (*b*) The classification of accounts is more easily effected in the case of loose-leaf Ledgers and cards, than when bound books are used, and the posting work can be so distributed as to permit it to keep pace with the sales; (*c*) a Trial Balance can be taken out more quickly, and (*d*) the despatch of monthly statements, and trade circulars is expedited. The drawbacks are patent. (*a*) Unless great care is exercised, cards get out of order and items are entered on the wrong cards. They also get dirty, or frayed. (*b*) Cards may be removed and destroyed and false ones substituted. This applies also, but in lesser degree, to the leaves in loose-leaf Ledgers. Fraud of the kind can only be met by a scientific system of internal check. Total accounts on the self-balancing system are of great assistance in this connection. The issue of new cards or loose leaves should be under responsible control. Special marks may be stamped on the cards used, and the loose leaves may be water-marked, or otherwise given a distinctive character. A detailed record should be kept of new cards, or leaves issued. (*c*) There is no doubt that auditors have to spend more time in checking the postings and balances of cards than of books. (*d*) The system is costly to initiate, though probably in yearly upkeep it is less expensive than the ordinary bound books.

The Ledger.—Whether composed of cards or loose leaves, the accounts can, by adopting a numerical classification, be adjusted to the general filing system, each account bearing the same number as the customer's folder in which his correspondence is filed. This makes for simplicity, and, the customers' number being soon memorised, the work of posting is accelerated. But any classification of the accounts may be adopted according to convenience, departmental, alphabetical, or geographical, or according to the terms of credit, etc. If a numerical classification is adopted, an alphabetical index is, of course, essential. When cards are used they are vertically filed in boxes or drawers in a cabinet. Guide cards projecting above the general level of the account cards divide the accounts into sections, and assist reference. Locking devices are usually fitted to the cabinets by which the control of the cards is restricted to the clerks deputed to look after them. The loose-leaf or card Ledgers are sometimes kept in duplicate, one being the current Ledger containing the live accounts showing open balances, the other containing the leaves or cards relating to past transactions that have been settled.

Purchases, Sales, and Returns Journals.—The loose-leaf principle is frequently extended to these subsidiary books. All invoices and credit notes are duplicated on the typewriter, and numbered in rotation. The originals are sent to the customers and the duplicates are arranged in order, and locked together between stout covers by one or other of the ingenious methods employed by manufacturers of loose-leaf books. These books of duplicates serve the purpose of the ordinary bound Journals. Each invoice or credit note is entered on summary sheets attached to the end of the book and posted in monthly totals to the nominal accounts. In the case of purchases, the original invoices are numbered in rotation and filed, and posted in monthly totals to the Purchases Account. In some businesses it is customary to keep a card index of all customers, each customer's card containing a record of the samples and quotations sent to him, with space on the card (or a second card) for particulars and dates of sales made to him. This practice facilitates the despatch of "repeat" orders.

Where loose leaves are employed on a large scale, the following rules afford a safeguard against fraud:—

(1) The keys of all Ledgers should be under the sole control of a responsible person, who takes no part in the book-keeping. No duplicate keys should be issued, and each binder should have a key of different pattern, if possible.

(2) The entire stock of new binders and leaves should be under the same control.

(3) When a ledger clerk requires new leaves, he should fill in a requisition form (which should be initialled by the chief accountant) and hand it to the custodian, who should satisfy himself that the requisition is properly made. The custodian should personally unlock and relock the binders when leaves are removed or inserted. New binders or cases should be issued under the same precautions.

(4) All leaves handed in as complete should be filed in convenient order in a locked binder for the relative Ledger or group of Ledgers. These binders should be under the sole control of the custodian. No ledger clerk should be permitted to destroy any leaf which may become damaged, or disfigured. All such leaves should be returned to the custodian.

(5) If practicable, no leaves should be removed until they have been passed by the auditors.

(6) If the leaves are distributed amongst the staff at balancing periods, the custodian should satisfy himself that the Ledgers are properly reassembled on the conclusion of the work.

(7) The loose leaves should bear the distinctive mark of the firm, and should be printed to the firm's special pattern. Strict instructions should be given to the printer that the firm's special pattern of loose leaves is to be supplied

only on an official order form signed by the custodian. Ordinary forms of loose leaves stocked by stationers should not be employed. Different marks and patterns for different Ledgers afford a further safeguard.

(8) A register should be kept by the custodian recording particulars of all new leaves received into stock, and full details of the leaves issued to the ledger keepers.

(9) Surprise visits should be made by the auditors, if possible.

(10) The ledger clerks should be changed periodically from one Ledger to another, without notice.

Costing.—The employment of cards in connection with costing is increasing amongst manufacturers. A card or set of cards is kept for each article of manufacture, or set of articles, or for each job or contract. Dead matter can be eliminated and indexing is facilitated. The system can be usefully applied to Stores and Cost Ledgers and the element of fraudulent manipulation is absent in this connection.

In suitable cases, the costing of orders or jobs is recorded almost wholly by means of cards. A daily card is entered up by each workman employed on the job, and handed in to the timekeeper at the close of the day; from these cards, weekly time cards are written up by the costing staff. Cards are also written up by the costing staff for all materials issued for the particular job by the store-keeper, and for expenses incurred for the job. These cards are filed in convenient form—usually under an order number—and from them the final cost card, showing the totals of all the separate cards, with the appropriate oncost added, is prepared. When kept in this manner, cards take the place of a Cost Ledger.

Time Accounts, etc.—The author's firm employs cards to record the time accounts of the staff, and finds the method convenient. Limited companies sometimes employ the loose-leaf or card method for the register of members, or debenture holders. Many other directions could be instanced where these methods of record are advantageously employed, but their widest employment is undoubtedly in connection with Ledgers and other books of account.

Indexing.—The card method is conspicuously justified for indexing statistics, orders, catalogues, reports, records of employees, stock records, quotations, addresses, lists of subscribers, correspondence, inquiries and so forth, but these things appertain to office organisation rather than to book-keeping.

The loose-leaf and the card have their respective champions, but there is no room for hot partisanship if, as is the case, the card may be more suitable in one set of circumstances, and the loose-leaf in another. It may, however, be conceded that more elaborate rulings are possible on the larger loose leaves, that they are less likely to be lost, and are, probably, less open to fraudulent manipulation than the cards.

Mechanical Aids.

Inventors have placed at the disposal of the book-keeper several ingenious mechanical devices by which his work may be lightened,

and their employment is certainly on the increase. The most notable of these are the listing, calculating, adding, posting, sorting, tabulating, combined typewriting and calculating, and book-typewriting machines of various makes. Perhaps one of the most useful of these devices is the listing machine which typewrites figures in columns, and keeps the total of the items tabulated in front of the operator, who can print the total of the column at any desired moment. But to describe these and other machines in detail would be to occupy space that can be more profitably devoted to the main purpose of this work; and verbal description is in-effective compared with inspection of the appliances themselves. The same remarks apply to filing cabinets, loose-leaf ledgers, card systems and other adjuncts of the modern office. Some of these appliances have revolutionised office work. The student is recommended to take an early opportunity to inspect these things in the show-rooms of the manufacturers or dealers. Meanwhile, he will be able to get a far more effective idea of their construction and usefulness than any that can be given here by writing to the under-mentioned firms for a descriptive booklet of their products and enclosing stamps for a reply.

BURROUGHS ADDING MACHINE, LTD., 136 Regent St., London, W. 1.	Adding Machines, Posting Machines.
ELLIOTT FISHER COMPANY, Bush House, Aldwych, W.C. 2.	Book-billing Machines, Combined Posting, Invoice Writing, and Adding Machines.
GLOBE-WERNICKE CO., LTD., 44 Holborn Viaduct, London, E.C. 1.	Office Furniture.
KALAMAZOO (SALES), LTD., 40 Grosvenor Place, London, S W. 1.	Loose-leaf Books.
LAMSON PARAGON SUPPLY CO., LTD., Queen's House, Kingsway, London, W.C. 2.	Business System Stationers, Carbon Check Books, etc.
REMINGTON TYPEWRITER CO., LTD., 100 Gracechurch St., London, E.C. 3.	Typing and Billing Machines.
RONEO, LTD., 5 Holborn, London, E.C. 1.	Copying and Duplicating Machines and general office appliances.
SHANNON, LTD., 57–59 Victoria St., London, S W. 1.	Office Furniture, Files, etc.
TOLLIT & HARVEY, LTD., 40 Gresham St., London, E.C. 2.	Loose-leaf Books, Card Systems, Special Rulings.
MULDIVO CALCULATING MACHINE CO., LTD., 49, Queen Victoria St., London, E.C.4.	Calculating Machines.
BRITISH TABULATING MACHINE CO., LTD., Victoria House, Southampton Row, London, W.C. 1.	Statistical Machinery.

EXAMINATION QUESTIONS.

1. Name some of the defects of single-entry book-keeping. (*National Union Teachers.*)

2. In a firm where nothing beyond a Cash Book has been kept and stock taken, you are required to prepare a Balance Sheet, Trading, and Profit and Loss Accounts. Describe your methods. (*Incorporated Accountants.*)

3. Describe the steps you would take in order to prepare a Trading Account, Profit and Loss Account, and Balance Sheet from a set of books which had been kept upon the single-entry system. (*London Chamber Commerce.*)

4. Robinson started business on January 1, 19.., with £1,000. He kept no books. He paid all moneys received into his Bank (they being clearly described in his paying-in slips), and made all payments by Cheque. He carefully preserved all vouchers and invoices received, and press copies of invoices of credit sales. How would you proceed to show the result of his first year's trading, with a view to his taking a partner? What further facts would you require to know? (*Chartered Accountants.*)

5. Set out below is a statement prepared by Mr. J. Brown, a cigarette manufacturer, claiming to show the result of his year's trading.

Do you approve of the statement? Give brief reasons in support of your views.

DECEMBER 31, 19...

	£		£
To Capital	2,659	By Plant and Machinery ..	5,059
" Sundry Creditors	9,850	" Furniture and Fittings ..	187
" Loan	2,000	" Goodwill	1,500
" Bank Overdraft	2,000	" Stock..	6,451
" Balance, being profit for the year	1,591	" Sundry Debtors	4,484
		" Cash in hand	19
		" J. Brown, Private Drawings	400
	£18,100		£18,100

(*London Chamber Commerce.*)

6. The following is the Balance Sheet of Ramsey & Ryan, as on December 31, 19.., :—

Liabilities.		£	Assets.	£
Sundry Creditors		320	Cash in hand	10
Reserve for Wages owing ..		30	Cash at Bank	250
Capital Accounts :—			Sundry Debtors	700
J. Ramsey ..	£700		Stock-in-Trade..	540
H. Ryan	700		Office Furniture	50
		1,400	Plant and Machinery	200

Up to that date the books had been kept on an incomplete single-entry system, and the firm wish you to open a new set of books on the system of double entry. What books would be required, what procedure would be necessary to open them, and briefly what instructions would you give to the book-keeper as to their use? (*Lancashire and Cheshire Institutes.*)

7. You are instructed by a client to convert his single-entry system into one of double entry. How would you proceed? Give entry or entries based on the following statement of Assets and Liabilities :—

Liabilities.	£	s.	d.	Assets.	£	s.	d.
Sundry Creditors ..	2,146	9	2	Sundry Debtors ..	3,596	7	2
Loans	500	0	0	Cash	561	9	2
Bills Payable	1,685	4	9	Stock	1,924	2	8
Bank Loan	500	0	0	Furniture	187	0	0
				Premises	2,000	0	0

(*Chartered Accountants.*)

8. George Waud started in business as a wholesale tobacconist on January 1, 19.., with a cash capital of £2,000. He kept no books. All his receipts were paid into the Bank, particulars being recorded on the counterfoils of the paying-in slips. Press copies were kept of all sales, and invoices, representing purchases, were carefully filed. A sum of £5 was drawn weekly for petty cash, but no details of disbursements were kept.

Waud asks you to prepare his accounts for the year ended December 31, 19... How should you proceed, and what further information, if any, should you require? (*London Chamber Commerce.*)

9. Walter Robinson, who is a slate merchant, has recorded his transactions in the following books: (*a*) Sales Day Book, in which all sales to customers have been entered. The sales have been posted in detail to the debit of the customers' personal accounts in the "Sales Ledger." (*b*) Cash

Book. Only "Bank" items have been dealt with in this book, and all cash thus received and paid has been duly entered. Cash received from customers has been posted to their credit in the "Sales Ledger." Cash paid to creditors for goods purchased has been posted to their debit in the "Purchases Ledger." With these exceptions, no further posting has been done (c) Petty Cash Book. This book, used for small cash payments, has been kept in funds by a weekly cheque passed through the "Cash Book." (d) "Sales" and "Purchases" Ledgers, as referred to above.

Statements from creditors and receipts have been kept on a file, but not otherwise dealt with. Except as detailed above, no further record of any kind has been kept by Robinson of his business transactions. Is Robinson's system of book-keeping an efficient one? If not, what alterations or additions will be necessary, in order that he may be in a position to prepare proper annual accounts? (*Royal Society Arts.*)

10. A client, who desires to purchase the business carried on by the late James Brown, gunsmith, instructs you to prepare accounts showing the trading results for the three years ended June 30, 19.., and the financial position as on that date.

State the procedure you would adopt in preparing these accounts, upon finding the following circumstances: (*a*) No "Private" or "Nominal" Ledgers have been kept. (*b*) The "Purchase" and "Sales" Journals have been posted in detail to the "Personal" Ledgers, but the dates are so often omitted or are so inaccurate that it is impossible, as the books stand, to arrive at the correct Ledger balances at any given date. (*c*) Numerous small items representing "Returns," "Allowances," "Overcharges," etc., have been entered direct into the customers' personal accounts without having previously passed through any books of first entry. (*d*) Many of the customers' accounts standing upon the books are greatly overdue, and are obviously of doubtful value. (*e*) None of the expense items on the Credit side of the Cash Book have been posted other than cheques handed to creditors for goods supplied by them and credited to their personal accounts through the Purchase Journal. (*f*) No proper return has been made for Income Tax purposes, taxes having been paid upon estimated assessments made by the surveyor. (*Chartered Accountants.*)

11. A, B, and C, trading in partnership, keep their books by single entry. Partners are entitled to 5 per cent. interest on the amounts standing to their credit at the beginning of each year, and B and C are entitled to £300 and £200 per annum respectively, by way of salary. The remaining profits are to be shared, A $\frac{1}{2}$, B $\frac{1}{3}$, C $\frac{1}{6}$. On January 1, 19.., their Capital Accounts were: A, £2,760; B, £1,080; C, £120, and their assets included plant valued at £820. In the half-year to June 30th following, each partner had drawn the interest on Capital to which he was entitled, B and C had received their salaries, and they had also drawn at the end of each month, A £50, B £30, C £25. They had bought further plant costing £220, and now valued the whole at £950. Creditors are £1,870; Cash, £460; Debtors, £3,040; Stock, £1,890. Prepare the Balance Sheet as on June 30, 19... (*Chartered Accountants.*)

12. W. Johnson is the sole owner of a crucible steel manufacturing business. He instructs you to prepare a Trading Account for the year 19 , and Balance Sheet as at December 31, 19...

On investigation, you find that he has kept a Cash Book (in which he has entered all receipts and payments, including a weekly salary to himself, interest on capital and drawings, all of which he has actually drawn out from the business), a Sales Ledger, and a Sales Day Book, which latter has never been cast up. He has not kept a Purchases Day Book or a Purchases Ledger, all accounts being paid from statements or invoices.

How would you proceed? (*Chartered Accountants.*)

13. Robert Webber keeps his books by the single-entry method. His financial position on December 31, 19.., was as follows: Cash in hand, £12 10s.; Cash at Bank, £153; Stock-in-Trade, £642 15s.; Sundry Debtors, £421 10s.; Fixtures and Fittings, £89; Machinery and Plant, £981; Sundry Creditors, £1,209 15s.

During the year Robert Webber withdrew from the business, for private purposes, the sum of £480.

At the close of the year Webber's financial position was as follows: Machinery and Plant, £1,350 10s; Fixtures and Fittings, £80 10s.; Sundry Debtors, £732; Stock-in-Trade, £950 10s.; Cash in hand, £15; Bank Overdraft, £500; Sundry Creditors, £1,400 10s.

From the above particulars prepare a statement showing the profit made by Robert Webber for the year ended December 31st. When preparing this statement no depreciation need be written off any of the assets, and no provision for bad and doubtful debts is necessary. (*London Chamber Commerce.*)

14. X, Y, and Z, carrying on business in partnership, keep their books by single entry. On June 30, 19.., the statement of their position was:—

	£		£
X	876	Cash	71
Y	413	Debtors	598
Creditors	218	Stock	416
		Plant	285
		Z	137
	£1,507		£1,507

On June 30th following, Cash was £47; Debtors, £714; Stock, £380; Plant, £420; and Creditors, £351. They share profits in the proportions of $\frac{3}{7}$, $\frac{2}{7}$, and $\frac{2}{7}$, and they have drawn per week during the year: X, £7; Y, £4; Z, £3. Interest on Capital and Partners' Overdrafts at 6 %. Show the position of their accounts on June 30th, and how the amounts are arrived at. (*Chartered Accountants.*)

15. C D, a client of yours, has been invited to join A B, in partnership. He is offered an equal share in the business, for which he is to pay an amount equal to two years' purchase of the profits made by A B, in 19. . You are asked to certify these profits.

On attending at A B's office you find that he has prepared a Statement of Affairs as on December 31, 19.., and a similar statement as on the preceding December 31. The balance between the Assets and Liabilities has been treated as representing A B's capital, and the increase shown by the capital figure of £2,041 is claimed by A B to be the profit for that year.

The Ledger contains accurate personal accounts, but no nominal accounts have been kept, although the material for their construction is available.

Describe the steps you would take in order to satisfy yourself as to the correct figure of profit before giving the desired certificate. (*Chartered Accountants.*)

16. Henry Johnson, a grocer, keeps his books by single entry. On January 1, 19.., his Assets and Liabilities were as follows: Cash in hand, £25; Cash at Bank, £300; Stock-in-Trade at cost, £500; Fixtures and Utensils, £100, Sundry Debtors, £275; Sundry Creditors, £660.

During the year he drew out of the business £300, for his own private purposes.

His Assets and Liabilities on December 31st were as follows: Cash in hand, £10; Cash at Bank, £430; Stock-in-Trade, £450; Fixtures and Utensils, £120; Sundry Debtors, £330; Sundry Creditors, £560.

Prepare a statement, showing Henry Johnson's profit for the year, after writing off 10 % for depreciation on Fixtures and Utensils and providing 10 % on the Sundry Debtors, to cover Bad Debts. (*Chartered Accountants.*)

17. Jones kept his books by single entry.

The following are his Balances on December 31st: Plant and Machinery, £5,000; Stock, £3,000; Book Debts, £2,000; Cash at Bankers, £350; Cash in hand, £30; Jones's Drawings, £600; Creditors, £2,500; Bills Payable, £350

His Capital on December 31st, previous, was £6,800.

Make up Profit and Loss Account for the year, after writing off 5 % from Plant and Machinery, allowing 5 % interest upon Capital (but not on Drawings), and reserving for Book Debts discounts at 2½ %. (*Chartered Accountants.*)

18. On January 1, 1930, A took B into partnership. A's books were kept by single entry, and the following statement as on the above date showed his position as follows :—

Liabilities.	£	Assets.	£
Sundry Creditors	1,600	Sundry Debtors	2,500
A's Capital	2,600	Stock-in-Trade	1,000
		Fixtures and Fittings ..	500
		Cash at Bank and in hand	200
	£4,200		£4,200

It was agreed that B should not draw on account of profits more than £250 per annum, until he had paid to A a premium of £100 out of his share of profits in excess of £250. A's capital was to be £2,600, as shown above, the new firm taking over the Assets and discharging the Liabilities. B was to bring in £500, which he did on January 1, 1930. The partners were to receive 5 % interest on their Capitals, and the profits or losses were to be divided, A two-thirds and B one-third. A's drawings were: 1930, £600; 1931, £540; 1932. £580. B drew £250 each year.

The position (apart from Capital) on December 31, 1930, 1931, and 1932 was as follows :—

	1930.	1931.	1932.
	£	£	£
Assets	5,000	4,950	5,700
Liabilities	1,750	1,500	1,600

Amounts due from B to A in respect of premium were to be transferred from his Capital to A's Capital Account.

Make out a statement showing the profit or loss for each year, and write up the Partners' Capital Accounts.

Also show the position between A and B as regards the premium. (*Chartered Accountants.*)

19. A and B, a firm of surveyors, ask you to audit their books at the end of the first year of the partnership. On arriving at the office you find the only books of account are :—

(1) Press Copy Book, into which the debit notes for fees are copied. The press copies are marked as paid, and dated as and when the fees are received.

(2) Petty Cash Book, in which the weekly salaries of the staff and all smaller expenses are entered.

(3) Bank Pass Book, all payments other than petty cash being made by cheque.

The Partnership Deed is produced to you, and it appears therefrom :—

(*a*) A brought into the business various assets and the connection at the agreed value of £600.

(*b*) B brought in £500 in cash.

(*c*) The profits are to be divided equally.

(*d*) The partners are entitled to draw on account of profits : A £6 per week, B £5 per week, and they have, in fact, drawn these respective amounts by cheques.

Under these circumstances, how would you audit the accounts for the past year, and what books would you advise the firm to keep in future ? (*Chartered Accountants.*)

20. Black and White are in partnership, and keep their books by single entry. They share profits and losses in the proportions of three-fifths and two-fifths respectively, and instruct you to prepare their Balance Sheet as on October 31, 19··, together with a Profit and Loss Account for the year ended on that date.

Upon analysing the firm's Cash Book for that period you find the following, viz. :—

	£	s.	d.
Bank Balance, November 1, prior	400	0	0
Black's Drawings	450	0	0
White's Drawings	300	0	0
Paid to Trade Creditors (including Bills Payable)	3,800	0	0
Wages	1,100	0	0
Salaries	500	0	0
Other Business Expenses	1,325	10	0
Received from Trade Debtors (including Bills Receivable)	5,364	10	0
Bank Balance, October 31, 19·· (Overdraft)	150	0	0
Cash in hand, October 31, 19··	20	0	0
Receipts from Cash Sales	1,581	0	0

The respective capitals of Black and White at previous November 1, were £4,000 and £1,000.

Particulars of the other Assets and Liabilities of the firm are as follows, viz. :—

	Nov. 1.			Oct. 31.		
	£	s.	d.	£	s.	d.
Stock on hand	1,980	0	0	2,500	0	0
Debtors	2,500	0	0	1,935	10	0
Creditors	2,200	0	0	700	0	0
Bills Receivable	500	0	0	700	0	0
Business Premises	2,000	0	0	2,000	0	0
Bills Payable	300	0	0			
Office Furniture	120	0	0	120	0	0

Under the Partnership Deed, 5 % interest on Partners' Capital is to be a charge to Profit and Loss Account (ignore drawings), and White is also entitled to be credited with a commission of 6 % upon the net profits divisible between the partners after charging such commission.

Reserve £150 for Doubtful Debts, and write off 5 % Depreciation on Business Premises and Office Furniture. (*Chartered Accountants.*)

21. You are instructed by T. Jones, who keeps his books by single entry, to prepare a Profit and Loss Account of his business for the year ended September 30, 1931, together with a Balance Sheet as on that date.

Upon analysing the Cash Book for the year you find the following, viz. :—

	£
Bank Overdraft at October 1, 1930	800
Interest on above and Bank Charges	15
T. Jones's Drawings	400
Manager's Salary	200
Salaries and Wages	1,500
Other Business Expenses	1,585
Paid to Trade Creditors	3,000
Balance at Bankers, September 30, 1931	485
Balance in hands of Cashier, September 30, 1931	15
Received from Trade Debtors	5,000
Received from Cash Sales	3,000

T. Jones's capital at October 1, 1930, was £7,000.

His Stock on hand on Oct. 1, 1930, was			£1,800, and on Sept. 30, 1931,			£2,044
His Creditors	,,	,,	£1,600	,,	,,	£1,100
His Debtors	,,	,,	£4,400	,,	,,	£6,000
His Furniture	,,	,,	£200	,,	,,	£200
His Business Premises	,,	,,	£3,000	,,	,,	£3,000

You are to allow 5 % interest on the balance of Capital at October 1, 1910, to reserve £300 for Doubtful Debts, and to charge 5 % Depreciation on Business Premises and Furniture.

In addition to the £200 salary already paid to the manager, he is entitled to a commission of 5 % upon the net profits, after charging such salary and commission.

Make provision for this commission, and prepare the accounts as instructed (*Chartered Accountants.*)

22. The following is the Balance Sheet of D, a manufacturer, on June 30, 19..:—

Liabilities.	£	£	Assets.	£	£
Sundry Creditors:—			Freehold Buildings ..		4,500
For Goods (net) ..	6,500		Plant and Machinery ..		3,300
„ Wages	140		Cash in hand		75
„ Travelling Expenses	85		Sundry Debtors	5,200	
		6,725	*Less* Estimated Discounts	400	
Due to Bankers		2,400			4,800
D's Capital		13,150	Stock		9,600
		£22,275			£22,275

His books are kept by single entry, and the following is an analysis of his cash transactions for the year ended June 30, following:—

Receipts.	£	Payments.	£
In hand, June 30, 19.. ..	75	Bankers	21,300
From Bankers	19,180	For Goods	9,125
„ Customers	20,645	„ Wages	5,900
Additional Capital	2,000	„ Carriage Inwards	140
		„ Carriage Outwards ..	700
		„ Salaries	1,250
		„ Travelling Expenses ..	550
		„ Trade Expenses	750
		Private Drawings	1,800
		In hand, June 30, 19.. ..	85
	£41,900		£41,900

His bankers have debited him with £120 for interest and bankers' charges not included in the foregoing cash statement. On June 30, the closing date, he owed creditors net for Goods £5,600, Wages £70, Trade Expenses £145, and for Carriage Outwards £100. The value of the Stock was £10,400. The Sundry Debtors amounted to £6,500, but of these £400 were bad, and the estimated discounts on the good debts were £450. The discounts allowed during the year on receipts from customers amounted to £1,450. The rate of Depreciation on the Buildings was fixed at 2 % per annum, and on the Plant and Machinery at 10 % per annum. Prepare Balance Sheet on June 30, 19.., and Trading and Profit and Loss Accounts for the year, ignoring interest on capital and on drawings. (*Chartered Accountants.*)

23. What do you understand by the "slip system" of Ledger posting? To what classes of business can the system be advantageously applied? Illustrate your answer by giving two *pro-forma* posting slips applicable to the business you select. (*Royal Society Arts.*)

24. Briefly explain the slip system of posting, and state the classes of business to which it can be advantageously applied.

Discuss the merits and/or demerits of the system from an auditor's point of view. (*Chartered Accountants.*)

25. State what you consider to be the advantages and disadvantages of Card Ledgers, giving particulars of the system and describing methods adopted for detecting missing and misplaced cards. (*Central Association Accountants.*)

26. What, in your opinion, are the advantages and disadvantages of Card Ledgers? Lay down a short set of rules for the control of the cards and the guidance of the book-keeper. (*Chartered Accountants.*)

27. What special precautions do you advise when Loose-leaf Ledgers are used? (*Incorporated Accountants.*)

28. Briefly explain the merits and demerits of Loose Leaf and Card Books of Account from an auditor's point of view.

Blank, a client of yours, employs six Sales Journals—one for each week-day. These Journals consist of the ordinary bound books. They are posted to three Ledgers—Town, Country and Export—which consist of cards filed alphabetically in cabinets.

Blank reports to you that a member of his staff received payment of several accounts in cash over the counter, tore up the relative Ledger Cards, and misappropriated the money. He asks you to advise him how to prevent a recurrence of similar frauds in the future.

What advice should you give? (*Chartered Accountants.*)

CHAPTER II

Trading, Working, and Manufacturing Accounts. Revenue, Receipts, and Payments, and Income and Expenditure Accounts The Graphic Presentation of Business Statements.

It is assumed that the student is fully acquainted with the book-keeping operations which lead up to the extraction of a Trial Balance and the preparation therefrom of Trading and Profit and Loss Accounts and a Balance Sheet. •

Trading and Manufacturing Accounts.

Construction of Trading Account.—It is the author's experience that, when an examination question is set which calls for the preparation of accounts from given figures, an almost bewildering variation will be shown in the construction of the Trading Account, and consequently, of course, in the figure of gross profit. Such divergencies are, perhaps, not greatly to be wondered at considering the variety of methods adopted in actual practice. Indeed, it may be admitted at once that the special needs of the trade or, indeed, the particular requirements of the proprietor, should be met. It is impossible authoritatively to define the term "gross profit," so great is the confusion of opinion upon the subject. Even in identical businesses the term may indicate six different results to half a dozen men, though it should not be difficult to agree upon the items which ought to comprise the Trading Account of a distributing business. After all, if the Trading Account is to serve a really useful purpose, it should furnish the proprietors of the business with the desired information in the most useful form. At the best, the actual gross profit figure is not of supreme importance; the really important thing is the ratio which it bears to former trading periods. Fluctuations in the ratio of gross profit between period and period are of vital importance.

Basis must be Consistent.—It will not be disputed, however, that Trading and Manufacturing Accounts ought to be drafted upon some reasonable and consistent plan. Such a plan is frequently lacking in the answers sent in by examination candidates. The author ventures to suggest that the wisest course for the student to adopt when answering examination questions is to include in the Trading Account all such items as directly affect the prime cost of purchasing or producing the article dealt in or manufactured, leaving the costs of sale and distribution and all

general overhead charges to be dealt with in the Profit and Loss Account.

Prime Cost Basis.—By prime cost in this connection is meant the cost of raw material plus carriage inwards and the wages paid in producing the commodity dealt in. All these items should move in sympathy with the turnover, whereas the majority of the Profit and Loss Account charges will to a large extent at any rate, remain unaffected by the volume of the sales. This method will result in a gross profit figure which is capable of comparison year by year on the basis of the turnover of the business.

It is probable that almost every trial balance will contain items which can be reasonably asserted to enter into the cost of the article produced, such as repairs, depreciation, rent, etc. Such items do not, however, rise and fall with the turnover, and, in the absence of specific instructions, and fuller detail of the conditions under which the business is worked, the examination candidate will be well advised to confine his Trading Account to the elementary constituents of prime cost.

Attempts have been made for the benefit of the student to differentiate between Trading, Manufacturing, and Working Accounts. In the author's opinion, these endeavours are not very helpful in view of the fact that all three terms are used in the commercial world without much discrimination. The phraseology of the heading of the account is not a matter of vital moment.

Various Forms of Trading Accounts.—In the simplest form the Trading Account will probably appear as follows :—

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
To Stock at commencement ..				1,500	0	0	By Sales ..	7,000	0	0			
,, Purchases ..	5,000	0	0				*Less* Returns	200	0	0	6,800	0	0
Less Returns	500	0	0	4,500	0	0	,, Stock at close ..				800	0	0
,, Balance, being gross profit carried down				1,600	0	0							
			£	7,600	0	0				£	7,600	0	0
							By Balance brought down ..			£	1,600	0	0

In accounts prepared upon these lines, the discount obtained upon the purchases is sometimes credited to the account in order that the absolute net cost of the purchases only shall be charged. It may well be argued that it is inconsistent to credit discount on purchases while ignoring the debit for discount on sales, since both are matters of financial policy rather than of trading proper.

Two-Section Trading Accounts.—Some business men who manufacture the whole, or part, of the goods they handle prefer to divide their trading accounts into two sections in a way similar to that shown in the accounts of the Blast Furnaces given at p. 27. By this method one may either show (1) the actual cost price of the goods manufactured, or, alternatively, (2) credit the manufacturing account with the current market value of the goods produced and so ascertain whether the manufacturing department has justified its existence. For many reasons the latter

method is to be preferred, but experience shows the former procedure to be the more common. Assuming that the manufacturer manufactures the bulk of the goods sold by him, his Trading Account under method (1) would appear as follows:—

MANUFACTURING ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19...

	£	s	d.	£	s.	d.		£	s.	d.	£	s	d.
To Stock:							By Stock:						
Raw Materials	7,000	0	0				Raw Materials	6,871	0	0			
Partially manufactured goods ..	1,400	0	0	8,400	0	0	Partially manufactured goods	1,272	0	0	8,143	0	0
,, *Purchases (*less* returns) ..				20,360	0	0	,, *Discounts on Purchases ..				1,472	0	0
,, Manufacturing Wages ..				6,972	0	0	,, Balance carried to Trading Account, being cost of goods manufactured ..				31,428	0	0
,, Factory Power				3,200	0	0							
,, Carriage inwards				2,111	0	0							
			£	41,043	0	0				£	41,043	0	0

* See remarks on previous page regarding this item.

TRADING ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19...

	£	s.	d.		£	s.	d.
To Stock	8,532	0	0	By Sales (net)*	52,421	0	0
,, Manufacturing Account, cost of goods manufactured ..	31,428	0	0	,, Stock	9,432	0	0
,, Goods Purchased (net)* ..	7,942	0	0				
,, †Distribution Expenses ..	3,461	0	0				
,, Balance carried to Profit and Loss Account, being gross profit for the year..	10,490	0	0				
£	61,853	0	0	£	61,853	0	0

* By "(net)" is meant less Returns, etc.

† Selling and Distribution Expenses are preferably included in the Profit and Loss rather than in the Trading Account Depreciation and repairs to Plant, etc., frequently occur in the Manufacturing or Trading Accounts.

Trading Accounts and Costing.—In these days, when scientific costing systems are becoming more and more important, it is not unusual to find that the older and more stereotyped form of Trading Account and Profit and Loss Account is superseded by a form of account specially devised to give the information in the form rendered necessary by the details required for the compilation of the costing system. The various expenses of production are grouped as between direct and indirect charges, and the shop or works oncost figures represent office or establishment expenses. In such cases it is usual to deal with the initial and final stocks in the Ledger accounts for each class of purchase and to bring in the net figure only as representing the consumption of each particular article for the period. A Trading Account drafted upon these lines is given in the chapter on Cost Accounts, at p. 773.

Percentage Trading Accounts.—These are merely Trading or Manufacturing Accounts prepared in the ordinary way, but with an additional column for the insertion of the proportion which the expense figures bear to the sales or output as the case may be:—

TRADING ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19..,

Per cent. on Sales		£	s	d.	Per cent. on Sales.		£	s	d.
28·20	To Stock	5,640	0	0	100 0	By Sales (net)	20,000	0	0
64·81	,, Purchases (Net) ..	12,062	0	0	24·25	,, Stock	4,850	0	0
4 75	,, Carriage	951	0	0					
26 49	,, Balance carried to Profit and Loss Account, being gross profit for the year	5,297	0	0					
124·25	£	24,850	0	0	124·25	£	24,850	0	0

In some cases the percentages which the costs bear to the sales are contrasted for a number of years for the information of the management in the manner shown below:—

MANUFACTURING ACCOUNT.

PERCENTAGE STATEMENT FOR THE FIVE YEARS ENDED DECEMBER 31, 19...

	£	s	d	19..	19..	19..	19..	19..
Materials Consumed ..	1,055	11	2	35 18	32·41	33 21	33·12	35·21
Manufacturing Wages ..	844	8	10	28·15	29 18	30·01	29·89	27·14
Factory Power . ..	149	0	0	4 97	5 01	4·87	5 02	4 82
Rent	49	0	0	1 63	1·71	1 59	1 71	1·78
Machinery Repairs.. ..	100	0	0	3 33	4·28	4 02	4·31	3·26
Gross Profit*	802	0	0	26 74	27·41	26·30	25·05	27·79
£	3,000	0	0	100 00	100·00	100·00	100 00	100 00

* In some cases depreciation is charged to this account before arriving at gross profits.

The student will realise that no stereotyped forms can be given for the preparation of Trading Accounts. The particular circumstances of the business, the preferences, or even the fads, of the management, all influence the way in which they are presented.

Typical Trading Accounts.—The great majority of companies are careful not to give the public any indication of the cost or volume of their turnover, and they therefore abstain from publishing Trading or Working Accounts. For this reason the theoretical student has little opportunity of examining "live" accounts of the kind, and it may be helpful therefore to set out a few specimen Trading and Working Accounts.

The Theatres Working Account shown combines the working results of the several theatres owned by the Company. The account is framed in the above manner in order to show the actual working profit on the theatres. All the "costs of entertainment" are debited and all takings are credited. The great majority of the films shown are rented for three or six days, as the case may be, only those of transient interest, such as "topical budgets," etc., are purchased, and these are resold to smaller theatres at reduced prices, according to their degree of novelty. Separate accounts are kept showing the working of the refreshment department, and the resulting profit only is shown in the above account. The "theatre profit" is carried to the Profit and Loss Account, which is then charged with secretarial and office salaries and expenses, printing, stationery, legal expenses, Income Tax, directors' fees, and so forth.

TRADING ACCOUNT OF A PICTURE THEATRE COMPANY.

THEATRES WORKING ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19...

	£	s.	d.	£	s.	d.		£	s	d.	£	s	d.
To Rent of Films				25,842	10	0	By Takings at Theatre	104,873	3	0			
,, Purchase of Films	2,521	0	0				*Less* Entertainment Tax	34,596	4	0			
Less Sales	1,140	0	0								70,276	19	0
				1 381	0	0	,, Profits on Refreshments				312	8	6
,, Salaries (Manager, Orchestra and Theatre Staff) .				11,522	0	0							
,, Electricity and Gas				4,325	18	6							
,, Repairs (Seats and Machines)				241	12	8							
,, Rent, Rates, Insurance, etc				6,418	0	0							
,, Advertising				345	10	0							
,, Petty Cash Expenses				1,424	19	8							
,, Balance carried to Profit and Loss Account being Gross Theatre Profit for the year				19,087	16	8							
			£	70,589	7	6				£	70,589	7	6

TRADING ACCOUNT OF JAM MANUFACTURERS.

MANUFACTURING ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19...

	£	s.	d	£	s	d		£	s	d	£	s	d.
To Stock				98,476	10	6	By Sales	402,321	8	4			
,, Purchases:							*Less* Returns	1,111	7	2			
Fruit	82,689	0	0								401,210	1	2
Sugar	101,421	0	0				,, Stock				94,642	8	4
Packing Materials	60,482	0	0										
Sundries	12,498	0	0										
	257,090	0	0										
Less Returns	2,722	10	0										
				254,367	10	0							
,, Manufacturing Wages				32,381	8	7							
,, Manufacturing Expenses				10,211	2	1							
,, Factory Power				6,119	10	0							
,, Distribution Expenses:													
Carriage	5,014	8	6										
Export Expenses	1,204	0	0										
Motor and Stable Expenses	3 693	18	4										
Packing Wages and Expenses	3,472	1	4										
Travellers' Salaries and Expenses	12,941	11	7										
				26,415	19	9							
,, Balance carried to Profit and Loss Account ..				67,880	8	7							
			£	495,852	9	6				£	495,852	9	6

TRADING ACCOUNT OF TOBACCO PLANTATION.

CROP COST ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19...

	£	s.	d.	£	s.	d.		£	s	d	£	s	d.
To *Plantation Expenses*:—							By *Proceeds of Sale of Tobacco* ..				153,650	14	0
Brokerage and Passage Money of Coolies	7,968	2	1										
Transport Expenses	2,427	14	1										
Hospital Expenses	4,211	10	0										
				14,607	6	2							
,, *Planting Wages*:—													
Planting	29,261	10	4										
Jungle Cutting	1,292	7	2										
Manufacturing	8,221	2	4										
				38,774	19	10							
,, *Planting and Manufacturing Expenses*				6,421	19	5							
,, *Plantation Salaries*:—													
European Staff	14,721	14	1										
Native Staff	6,981	12	5										
				21,703	6	6							
,, *Replacements and Repairs*:—													
Buildings and Granges	16,421	2	1										
Roads and Drains	4,218	19	4										
Tramways	961	4	1										
Launches and Barges	1,842	6	1										
Carts and Implements	1,208	9	6										
				24,652	1	1							
,, *Loss by death of Coolies*				1,132	10	0							
,, *Commission on Crop to European Staff*				5,097	0	0							
,, *Balance*, being Gross Profit on Crop carried to Profit and Loss Account				41,261	11	0							
				£153,650	14	0					£153,650	14	0

The Jam Manufacturers' Account at p. 24 is designed to arrive at the gross profit achieved after all cost of manufacture and distribution have been charged against the sales. The balance of the account is carried to the Profit and Loss Account, which is then charged with office and management salaries and expenses, depreciation, directors' fees, and general overhead expenses.

The purpose of the Crop Cost Account on p. 25 is to ascertain the actual plantation profit shown upon the basis of the cost of producing the year's tobacco crop in the East, as compared with the price realised by its sale in Amsterdam—the tobacco market of Europe. The account is self-explanatory, with the exception of the item "loss by death of coolies." When coolies are engaged an advance is made to them which is repaid out of future earnings. The item in question represents bad debts which have arisen in connection with the death or default of coolies. Owing to the fact that the tobacco crop is sold outright by auction, or tender, there are no stocks to be dealt with in the accounts. But if a crop is very late in any one year, the stock actually in hand at the date of the Balance Sheet will be valued at the prices subsequently realised, and not at cost, since the whole aim of the accounts is to ascertain the crop profit. Were this method not adopted, there might be a "year" without profit, the following year's accounts including *two* years' profits—which would be absurd in the circumstances. The item "Replacements and Repairs" will doubtless appear to be heavy to the student. Plantation Companies not infrequently treat the "Plantation," "Estate," or "Block" asset account in the Balance Sheet as a fixed amount and charge all future estate expenditure against the current crop. This practice is a wise one owing to the very heavy depreciation which takes place in tropical climates, and in view of the frail construction of many of the buildings.

The profit arrived at in the above account is transferred to the Profit and Loss Account, which is then charged with the expenditure at the London office, Income Tax, directors' fees, and so forth.

The first of the accounts at p. 27 is designed to show the ironmaster the exact cost per ton of the iron produced by him. This information is of paramount importance. The whole cost of production is debited to the Furnace Account, which is credited with the sale of by-products (Slag, etc.) and a small amount received for hauling materials for neighbours. The resulting balance shows the cost of the pig-iron produced which, in this case, amounted to 37s. 5⅝d. per ton. The student will note that no stocks of raw materials appear in the Furnace Account: this is due to the fact that stock figures are adjusted in the Ledger accounts, as shown in the Coal account, the balance of the account—representing the amount of material used—being transferred to the Furnace Account.

The Pig-iron Trading Account forms the second section of the working account, and is debited with the stock brought forward from the previous period and the cost of the pig-iron produced during the current year. The "Sundry Trade Charges" represent the cost of selling the pig-iron. The account is credited with the sales for the year and with a small amount of iron used in the Company's own foundry and repairing shop, and the balance of the account is then transferred to the Profit and Loss Account and represents the gross profit on the turnover for the year.

TRADING ACCOUNT OF BLAST FURNACES.

FURNACE ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19...

	£	s	d.		£	s	d.
To Furnace Wages	5,762	12	6	By Sales of Slag (net)	4,604	1	2
" Coal (including carriage)	6,420	10	2	" Sales of Sand	141	11	10
" Coke (including carriage)	17,924	1	1	" Wagon Hire	321	0	10
" Limestone	1,621	0	4	" Pig-iron produced (transferred to Pig-iron Trading Account) (cost per ton, 37s. 5½d.)	34,457	7	7
" Ironstone	6,352	8	9				
" Sundry Materials	1,281	4	6				
" Works Salaries	—	—	—				
" Land Damages and Compensation	162	4	1				
	£39,524	1	5		£39,524	1	5

PIG-IRON TRADING ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19...

	£	s	d.			£	s	d.
To Stock of Pig-iron at this date (cost per ton, 35s. 6½d.)	8,122	10	0	By Sale of Pig-iron	£50,851 14 6			
" Cost of Pig-iron produced, as per Furnace Account	34,457	7	7	*Less* Short-weight claims	841 10 2	50,010	4	4
" Sundry Trade Charges	6,220	8	6	" Pig-iron consumed in Foundry		92	10	0
" Balance carried to Profit and Loss Account	12,284	3	11	" Stock of Pig-iron		10,981	15	8
	£61,084	10	0			£61,084	10	0

COAL ACCOUNT.

		£	s.	d			£	s	d.
19.. Jan 1	To Stock	350	4	6	19.. Dec. 31	By Stock at this date	240	2	1
Dec 31	" Purchases for the year	5,668	6	7		" Transfer to Furnace Account	6,420	10	2
	" Carriage on ditto	642	1	2					
		£6,660	12	3			£6,660	12	3
19.. Jan. 1	To Stock brought down	240	2	1					

WORKING ACCOUNT OF PROFESSIONAL FIRM.

(Deeds, Parchment & Tape, Solicitors.)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19 . .

	£	s.	d.		£	s.	d.
To Counsels' Fees ..	3,650	6	6	By Costs charged out to Clients (including Disbursements as per Contra made on behalf of Clients and charged in Bills).			
" Disbursements (made on behalf of Clients and charged in bills as per Contra) ..	8,485	10	6	Chancery .. £5,641 10 2			
" Stationery on behalf of Clients ..	1,095	8	6	Common Law .. 3,261 5 9			
" Shorthand Writers on behalf of Clients ..	140	9	8	Parliamentary .. 9,962 16 8			
" Advertising on behalf of Clients ..	109	16	9	Agency .. 17,896 10 4	36,762	2	11
" Balance carried down ..	23,450	9	4	" Copies of Documents supplied ..	169	18	4
	£36,932	1	3		£36,932	1	3
To Salaries of Staff ..	6,844	19	6	By Balance brought down ..	23,450	9	4
" Housekeeping, Coal, Gas, Water, Rates, etc. ..	568	10	2	" Premiums from Articled Clerks ..	500	0	0
" Office Expenses and Incidentals ..	639	16	6	" Interest and Commission ..	125	14	9
" Office Stationery ..	394	16	9	" Rents (Sub-lettings) ..	240	0	0
" Rent ..	700	0	0	" Directors' Fees earned by Partners ..	150	0	0
" Certificate Duty ..	83	10	0				
" Accountants' Charges ..	100	0	0				
" Allowances and Bad Debts ..	309	10	6				
" Proportion of Lease Account written off ..	300	0	0				
" Balance carried down ..	14,525	0	8				
	£24,466	4	1		£24,466	4	1
To Mr. Deeds: Interest on Capital .. £300 0 0; Share of Profit .. 5,530 0 4	5,830	0	4	By Balance brought down ..	14,525	0	8
" Mr. Parchment: Interest on Capital .. £250 0 0; Share of Profit .. 4,147 10 4	4,397	10	4				
" Mr. Tape: Interest on Capital .. £150 0 0; Share of Profit .. 4,147 10 0	4,297	10	0				
	£14,525	0	8		£14,525	0	8

The student will note that the account on p. 28 is divided into three sections. The first section shows the gross amount of the Bills of Costs representing the year's work of the firm. The debits in this section consist entirely of disbursements made on behalf of clients charged in their bills. The balance of the section shows the *net* amount of the professional fees earned during the year. The second section contains the working costs of conducting the business and the sundry receipts, and results in a balance which represents the profit for the year available for division among the partners The third section shows the division of the profit in accordance with the partnership deed.

The account at pp. 30–1 is drafted to show the working results of (*a*) the Country Printing Works, (*b*) the City Jobbing Works, and (*d*) the Retail Branches of a firm of printers. All charges connected with the production of the work executed are debited, including discounts and allowances to customers and the cost of the work spoilt during printing. The balance of the account is carried to the Profit and Loss Account, which bears the usual charges for office and management expenses, directors' fees, and the like.

In the wholesale meat trade it is customary to prepare weekly Profit and Loss Accounts. The trade is on a cash basis, and, in view of the fluctuations to which the trade is subject, it is of importance that the meat salesman should ascertain his results week by week. A ruling of a Sales Journal and the form of Weekly Profit and Loss Account employed in the Smithfield Market is given at p. 32.

The foregoing illustrations could be multiplied, but it is thought that they are sufficiently varied to demonstrate to the student that it is impossible to stereotype the form in which such accounts should be presented.

Comparative Trading Accounts.—There can be few businesses where accounts giving comparisons of the figures with one or more preceding years are not of great value. Such comparisons of trading results are conveniently accommodated by means of the requisite number of columns on either side of the account. In the case of a Trading Account, mere increases or decreases expressed in sterling are of little value. The information of real importance is the variations which have taken place in the ratio which these figures bear to the turnover for the several periods dealt with. Percentage comparisons enable the management to draw conclusions of practical value. For example, fluctuations in the amount of stocks held require careful watching in some trades. In a distributing business the ratio of stock to turnover should vary very little, but, in a manufacturing business, fluctuations in the market cost of raw materials may reflect an element of speculation in the manufacturer's stock percentages which needs careful consideration. Overstocking usually indicates bad management and may even point to dishonesty. Decreases in the percentage of gross profit earned need careful examination A continued decrease in this direction should act as a danger signal. Increases

WORKING ACCOUNT

WORKING ACCOUNT FOR THE YEAR

	Printing Works.			Job Printing Depot (City).			Retail Depots.			Total.		
	£	s.	d	£	s	d.	£	s.	d	£	s	d
To Stock.—												
" Materials	3,689	12	2	2,821	10	1	641	18	2	7,153	0	5
" Work in Progress	2,611	10	0	2,942	8	2	81	6	1	5,635	4	3
" Purchases	17,982	18	0	8,711	6	2	3,021	4	8	30,315	9	4
" Wages . . .	20,611	6	2	11,632	1	2	784	2	1	36,057	9	5
" Discount and Allowances	724	7	1	488	6	2	61	12	6	1,274	5	9
" Rent	1,750	0	0	600	0	0	600	0	0	2,950	0	0
" Spoilage	108	6	4	52	6	1	3	10	8	164	3	1
" Repairs to Plant ..	636	5	6	521	6	2	—	—	—	1,157	11	8
" Depreciation of Plant	1,886	3	2	789	6	1	—	—	—	2,675	9	3
" Balance carried to Profit and Loss Account, being working profit for the year	9,113	5	8	5,993	8	10	195	5	8	15,302	0	2
	£59,143	14	7	£37,581	18	11	£6,288	19	10	£103,011	13	4

in the manufacturing wages and expenses, cost of power, carriage and other variable expenses need explanation and justification.

An example of a Comparative Trading Account is given below.

COMPARATIVE TRADING ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19...*

	19..	19..	£	s.	d.			£	s.	d.
To Stock			12,500	0	0	By Sales (net) ..	100·00	56,000	0	0
" Purchases (net)	49·21	50 78	37,500	0	0	" Stock		21,560	0	0
" Manufacturing Wages ..	23 71	22 67	12,700	0	0					
" Factory Power	6·01	5 73	3,210	0	0					
" Balance, being gross profit carried down	21·07	20·82	11,650	0	0					
	100 00	100·00	£77,560	0	0		100·00	£77,560	0	0
						By Balance brought down		£11,650	0	0

* The percentages in this account are arrived at on the basis of the net materials consumed.

Comparative Profit and Loss Accounts.—The principle of comparative results may also be usefully extended to the Profit and Loss Account. Some items, of course, will not vary in direct relation to the turnover, e.g. rent, rates, or taxes. On the other hand, such items as commission, travelling expenses, trade expenses, carriage outwards, discount, allowances, spoilage, garage and stable expenses, packing expenses, bad debts, and so forth, are affected by the volume of the sales.

Comparative Balance Sheets.—When comparisons with former years are given in the Balance Sheet, the variations can, of course, only be shown in sterling. In some cases increases and decreases are indicated in red and black ink respectively.

In all cases where comparative figures are given the important consideration to ensure is that the principle employed is sound

OF PRINTERS.

ENDED DECEMBER 31, 19...

	Printing Works.			Job Printing Depot (City)			Retail Depots.			Total.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
By Sales	53,321	6	8	30,462	7	2	4,905	19	4	88,689	13	2
„ Stock :—												
Materials	4,198	6	2	3,678	4	1	920	19	2	8,797	9	5
Work in progress	1,024	1	9	3,441	7	8	402	1	4	5,527	10	9
	£59,143	14	7	£37,581	18	11	£6,288	19	10	£103,014	13	4

and that the basis adopted is consistently adhered to from period to period. It is of the first importance that these accounts should be so framed that they will furnish the necessary information in the form desired by the proprietor of the business, for, after all has been said, the accounting method employed by a business man should be his servant and not his master.

Parliamentary Companies.—Companies working under the double-account system must of necessity employ the statutory form of *trading or working account imposed upon the class* of undertaking to which they belong. Specimens of accounts of this nature, together with full explanations, will be found in the Chapter on the Double-Account System.

REVENUE, RECEIPTS AND PAYMENTS, AND INCOME AND EXPENDITURE ACCOUNTS.

It is assumed that the student is already well acquainted with the distinctions between, and the uses and methods of compiling Revenue, Receipts and Payments, and Income and Expenditure Accounts. These matters have been fully dealt with in *Book-keeping and Accounts*, Chapter XIX, and need not be repeated here.

Receipts and Payments Account.—It may be well to remind the student that these accounts are only suitable for the needs of small benevolent or non-trading undertakings. They deal with cash transactions only, and consist of a condensed summary of the Cash Book. They should take the form of :—

B. BLANK, Esq., Treasurer,
—— In account with ——
The Parenthetic Society.

Revenue Account.—This term is frequently very loosely employed. Amongst amateurs it is frequently regarded as synonymous with "Receipts and Payments Account." In business circles

MEAT SALESMEN.

SALES JOURNAL.

Cash.			Debits.			Ledger Folio	Name.	Grade	No.	Sheep and Lambs.							No.	Cut Mutton							
										Weight		Price.						Goods.	Weight		Price				
£	s	d.	£	s.	d							s.	d	£	s	d					s.	d	£	s	d.
			6	5	9	471	Robinson, J. R...		6	24	6	5	1	6	5	9									
17	0	8					Ready money ..		4	18	1	4	10	17	0	8									
			5	18	5	210	Jenkins, W. F ..										6	Jackets	29	0	4	1	5	18	5
4	8	10					Ready money .										24	Shoulders	20	4	4	4	4	8	10
			2	8	8	71	Hall, R. .. .										10	Legs	9	1	5	4	2	8	8
			5	11	3	411	Peters, C.										5	Trunks	27	2	4	1	5	11	3

WEEKLY PROFIT AND LOSS ACCOUNT.

PROFIT AND LOSS ACCOUNT FOR THE WEEK ENDED .... 19...

	Beef.			Beef Cut.			Mutton				Beef.			Beef Cut.			Mutton		
	£	s.	d.	£	s	d.	£	s.	d		£	s.	d	£	s.	d.	£	s	d.
To Stock on										By Sales									
„ Purchases										„ Commission									
„ Gross Profits carried down .										„ Stock on									
„ Expenses—										„ Gross Profit brought down									
Rent																			
Wages																			
Shop Expenses..																			
Storage																			
Lighting and Sundries ..																			
Accountancy Charges ..																			
Reserve for Bad Debts..																			
State Insurance																			
„ Net Profit for the Week ..																			

the term is applied to the Profit and Loss, or Income and Expenditure Accounts, of insurance and similar undertakings, as distinct from manufacturing or trading undertakings. The term is also employed in connection with the various statutory forms of account which are obligatory in the case of the Parliamentary companies for which they were prescribed.

In its widest sense, of course, the term covers all earnings and income from trading, manufacturing, or any other source, and its application to accounts which deal with these matters is, after all, largely a matter of custom or personal preference. The author does not find it easy, however, to imagine circumstances in which the term could not be advantageously replaced by the more explicit headings "Income and Expenditure," or "Profit and Loss," indeed he would venture to suggest that the distinctions which are sometimes drawn between the headings "Income and Expenditure" and "Revenue" are purely pedantic, and that if the latter heading were abandoned it would not be missed.

Income and Expenditure Account.—This term pre-supposes double-entry book-keeping, and accounts presented in this form must be accompanied by their correlative Balance Sheets.

The student is aware that such accounts should include the whole of the income and expenditure appertaining to the period covered by the account irrespective of whether *it has actually* been received or paid, or not. The result of such an account will then show the actual income for the year and will lead up to the relative Balance Sheet which will exhibit the financial position at the close of the year.

Examination of some of the accounts published by the various societies, clubs and institutions who enrol members or appeal for donations, discloses an astonishing variety of statements, the majority of which are incorrectly presented, and consist of a combination of Cash Statement and Income and Expenditure Account unaccompanied by a Balance Sheet. Set out on p. 34 is a typical example of the manner in which the accounts of many undertakings of this class are presented. The statement affords a good illustration of *The Wrong Method.*

In order to disclose the proper financial position, the statement must be redrafted as shown at p. 35.

The Statement published by the Society is unfortunately typical of the accounts presented by many undertakings to their subscribers. The student will note that the Statement does not disclose the Society's *income* for the year. He will also observe from the Treasurer's note that the Society possesses assets and should therefore present a Balance Sheet. It is, moreover, reasonable to assume that a Society of this description must have had outstanding liabilities—even if small—which would be an additional reason for the publication of a proper statement showing the actual financial position of the Society.

The income of the Society and the exact financial position are exhibited in the Income and Expenditure Account and Balance Sheet as re-drafted.

THE WRONG METHOD.

THE LOAMSHIRE ROSE SOCIETY.

TREASURER'S STATEMENT FOR THE YEAR ENDED DECEMBER 31, 19..

		£	s	d.			£	s	d.
To Balance at Bank		220	1	6	By Secretary's Salary and clerical assistance		178	10	0
,, Subscriptions	£1,421 0 0				,, Printing and Advertising		248	18	6
,, Special Donations	105 0 0				,, Postage, Stationery, and Sundry Expenses		192	18	7
		1,526	0	0	,, Audit Fee		10	10	0
,, Entrance Money at Shows:					,, Expenses of Shows:				
Summer	£125 7 6				Summer	£279 10 8			
Autumn	72 10 0				Autumn	101 4 2			
		197	17	6			380	14	10
,, Rent of Show Space:					,, Cost of Prizes and Medals		630	10	6
Summer	£162 10 0				,, Purchase of £200 5 % Exchequer Bonds		200	0	0
Autumn	51 0 0				,, Cash at Bank		436	9	1
		213	10	0					
,, Proceeds advertisements in Catalogues and Publications		57	10	0					
,, Sale of Catalogues and Publications		32	8	6					
,, Interest on Investments		31	4	0					
		£2,278	11	6			£2,278	11	6

TREASURER'S NOTE.—*The Society's accumulated fund now amounts to £1,222 2s. 6d. (£1,200 Consols cost £722 2s. 6d. and £500 5 % Exchequer Bonds). Subscriptions amounting to £10 10s., and Rent of Show Space (Autumn Show), £21 10s., were outstanding at the end of the year, but have since been received.*

THE RIGHT METHOD.

THE LOAMSHIRE ROSE SOCIETY.

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19...

		£	s.	d			£	s.	d
To Secretary's Salary and clerical assistance		178	10	0	By Subscriptions	£1,431 10 0			
,, Printing and Advertising		248	18	6	Special Donations	105 0 0	1,536	10	0
,, Postage, Stationery, and Sundry Expenses		192	18	7	,, Entrance Money at Shows:				
,, Audit Fee		10	10	0	Summer	£125 7 6			
,, Expenses of Shows:					Autumn	72 10 0	197	17	6
Summer	£279 10 8				,, Rent of Show Space:				
Autumn	101 4 2	380	14	10	Summer	£162 10 0			
,, Cost of Prizes and Medals		630	10	6	Autumn	72 10 0	235	0	0
,, Balance, being excess of Income over Expenditure for the year transferred to the Accumulated Fund		448	7	7	,, Proceeds advertisements in Catalogues and Publications		57	10	0
					,, *Sale of Catalogues and Publications*		32	8	6
					,, Interest on Investments		31	4	0
		£2,090	10	0			£2,090	10	0

BALANCE SHEET, DECEMBER 31, 19...

		£	s.	d.			£	s.	d.
To Loamshire Rose Society Accumulated Fund as per last Balance Sheet	£1,492 4 0				By Investments.				
,, Income and Expenditure Account (Balance)	448 7 7	1,940	11	7	£1,200 Consols at cost	£722 2 6			
					£500 5 % Exchequer Bonds	500 0 0	1,222	2	6
					,, Cash at Bank		436	9	1
					,, Sundry Debtors:				
					Subscriptions outstanding	£10 10 0			
					Rent of Show Space outstanding	21 10 0	32	0	0
					,, Show Tents and Plant		250	0	0
		£1,940	11	7			£1,940	11	7

THE GRAPHIC PRESENTATION OF BUSINESS STATEMENTS.

Accounts and business statistics frequently prove more arresting to the commercial man when shown graphically, or pictorially, by means of diagrams, than when presented in the ordinary columnar or tabular form This is especially the case when the statements are prepared for the information of those who are unversed in, or impatient of, the usual accounting methods. It sometimes happens that the general trend of a series of figures is not readily grasped at first sight when presented in the usual financial form, but when the same figures are presented in the form of a chart or diagram, their significance is immediately perceived.

Diagrams in several forms are commonly used in business, each varying with the character of the facts which it is desired

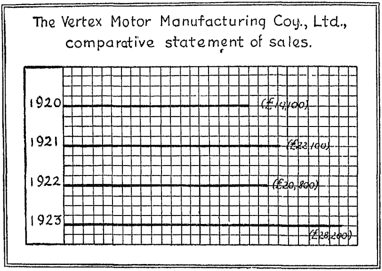

FIG. 1.

to present. It will suffice, perhaps, to illustrate three forms of diagram in general use. A little thought and constructive ability will enable the student to arrange graphically in suitable form any ordinary series of figures.

The paper employed for charts and diagrams is known as "sectional," each sheet being covered with horizontal and perpendicular lines which divide it into numerous small squares. If one square, or the length of one side of a square, is taken as representing so many units of the figure which it is desired to show graphically, it becomes possible to display, in the form of lines or solid diagrams, any number of sets of figures side by side. In this manner comparisons between successive amounts or periods are demonstrated very clearly.

In Fig. 1 thick lines are employed for the purpose of showing comparatively the successive annual sales (i.e. turnover) of a

business for four years, the length of each line representing the total sales for the particular year.

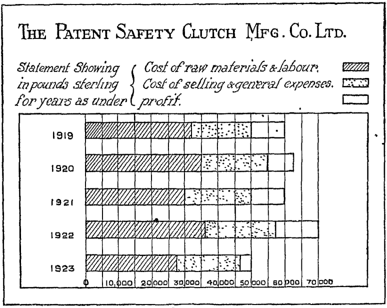

FIG. 2.

In Fig. 2 solid diagrams are employed for the purpose of showing (a) the cost of raw material and labour (shaded squares),

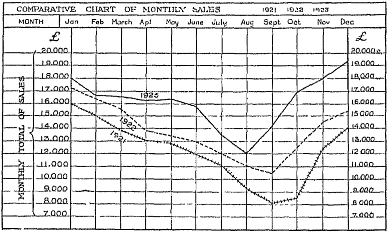

FIG. 3.

(b) the cost of selling and general administration (dotted squares), and (c) the profit (plain squares) of a manufacturing company

for five successive years. In this case each square represents £5,000. The total of the shaded, dotted and plain squares set against each year represents the total sales for that year, and the dotted and plain squares for each year, taken together, represent the gross trading profit for that year.

In Fig. 3 the form employed is that of the ordinary barometer chart. By this means the monthly sales for three years are compared, the sales of each year being recorded by employing a different kind of line. It is easy, from this form of chart, for a busy man, unversed in accounts, to compare the sales of each month with the corresponding periods of past years, and also to follow the general trend of each year's business. In the preparation of this chart the months are ranged across the page at the head of the diagram, and the amounts of each month's sales appear in pounds sterling on the left-hand side. The sales of each month are brought into the chart by noting where the "amount" line intersects the "month" line, and by joining this point to the previous month's point by means of a ruled line.

Costing Charts and Diagrams.

The presentation of costing results by means of Progress Charts has come into prominence during recent years. The graphic method of presentation indicates the progress of a contract or job more clearly than the ordinary forms employed, particularly, perhaps, to persons accustomed to the use of blue prints, as members of the technical and works staff usually are. Charts of the kind also assist the cost accountant in his work by enabling him to compare the prime cost in material and wages, with the estimated costs as originally allowed for. Most useful information in connection with oncost charges can also be presented by this means. Of necessity, the form of chart employed varies with the type of facts to be illustrated. For the purpose of affording a simple illustration a firm manufacturing goods on a tonnage basis has been taken. According to the last completed year's figures the total oncost charges were £5,000 and the tonnage output was 2,500. Each ton of output therefore during the current year should on this basis bear £2 of charges, and the tonnage output should be maintained at 50 tons per week, at least. In this case, the chart will assume the form as given in Fig. 4 :—

In the chart (Fig. 4) the base line is divided into 12 months and subdivided into 52 weeks. The left-hand vertical line indicates oncost charges, and the right-hand vertical line tonnage output. The diagonal line shows at the various points of intersection the weight turned out for each week of the previous year and the corresponding oncost charges. The dotted line shows the progress during the current year. Where the dotted line falls below the solid diagonal line it indicates the extent to which production has fallen below that for the previous year ; where it rises above it, by how much the current year's production exceeds the previous year's. When the works are closed, the output line is extended horizontally. Should the tonnage figure for the current year exceed,

say, £3,000, it does not of course imply that oncost charges have advanced to £6,000. On the contrary, these charges may not greatly exceed the oncost charges for an output of 2,500 tons.

A simple progress chart for a specific job can be similarly built up. In the chart at p 40 the base line is divided into periods

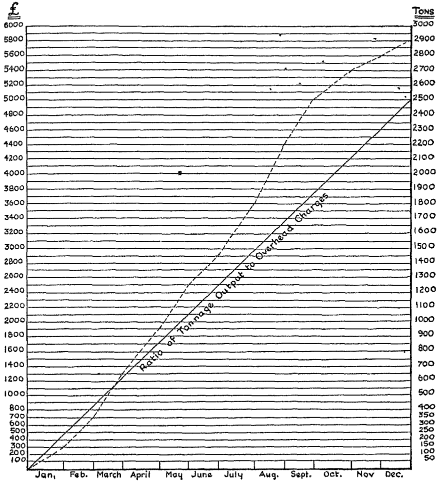

FIG. 4.

as before, whilst the left hand vertical column is divided to show the wages which have been estimated or allowed for the job. The actual wages paid each week are indicated by the dotted diagonal line. By keeping watch on the chart, during the progress of the work in the shops the works manager can judge if the cost is being exceeded and can act accordingly. In the chart here given a rather extreme case has been assumed, viz. where the wages allowed

have been exceeded and the work has taken far longer than it was estimated to take.

It will be seen that a period of twelve weeks was allowed for

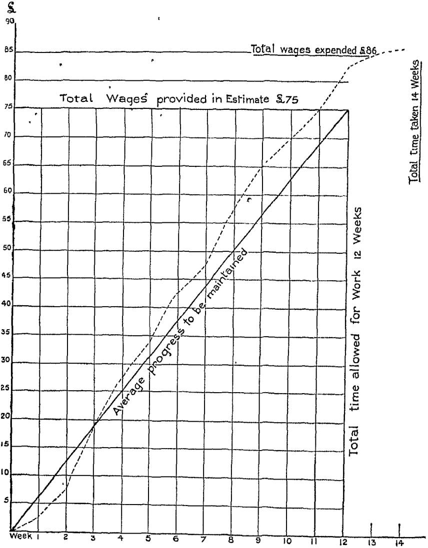

FIG. 5.

the work, and that the wages were estimated to be £75. The solid diagonal line therefore shows how the work should have progressed. The dotted line shows the actual progress. Clearly the work proceeded too slowly for the first three weeks, as evidenced by the wages paid. Thereafter the wages paid exceeded

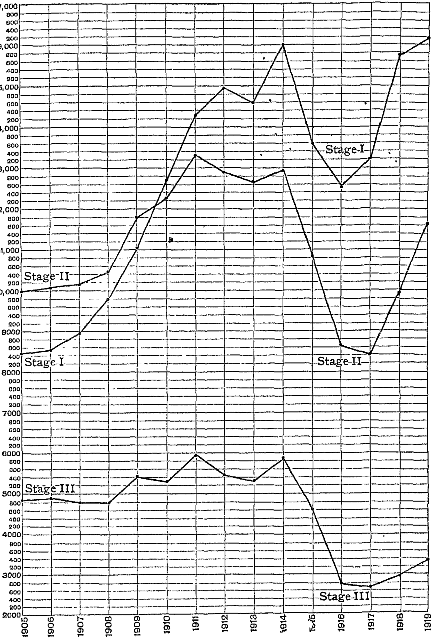

DIAGRAM SHOWING THE NUMBERS OF PAPERS WORKED IN THE THREE STAGES, 1905-1919.—
I. ELEMENTARY; II. INTERMEDIATE, III. ADVANCED.

FIG. 6.

the estimate, and had the work been completed at the end of the eleventh week all would have been well. The works manager would, of course, be in touch with the work, and when, say, at the end of the ninth week he found that the wages paid exceeded the estimated wages, he should have taken steps to expedite the work. At the end of the twelfth week the wages paid had exceeded the estimate by some £8 and the job was still uncompleted. In the end, £86 had been paid in wages, and fourteen weeks had been taken for the work. When estimating for similar work on a subsequent occasion, either a higher price would have to be charged, or the work would have to be carried through more expeditiously and economically.

Charts may be usefully employed for demonstrating results other than trading results. An excellent example, affording a record of the examinations held by the Royal Society of Arts for a series of years, is given at p. 41.

Many more elaborate types of chart might be given, but it is thought that the simple illustrations above will sufficiently indicate the value of charts. Whatever preference the accountant may have for figures presented in the ordinary way, it must be admitted that the chart has a fascination of its own. In view of present-day tendencies, the enterprising student will be well advised to pursue the subject farther and to familiarise himself with the general principles for presenting records in graphic form.

EXAMINATION QUESTIONS.

1. What is the difference, as ordinarily understood, between Gross Profit and Net Profit ?

State some of the advantages to be derived from arriving periodically at the gross profit of a business. (*Chartered Accountants.*)

2. Explain the difference between a Trading Account and a Profit and Loss Account, and state in which account you would place the following items, giving your reasons : Purchases, Carriage and Freight, Debenture Interest, Depreciation, Allowances, Bad Debts, Wages, Commission, Advertising, Sales, Stocks on hand, Returns, Discounts, Fuel, Packages, Directors' Fees. (*Chartered Accountants.*)

3. In the audit of a manufacturing concern of which you are the auditor, under what circumstances would you consider it your duty to inquire specially into the question of Gross Profit ? Describe fully your method of proceeding, stating the nature of the manufacture you are dealing with. (*Chartered Accountants*)

4. Give an example of a Trading Account for the year ended June 30, 19.., showing a Gross Profit of 20% on the Sales, and an increase of 20% in the value of the Stock in hand. (*C.I. Secretaries.*)

5. The directors of a manufacturing company are anxious to compare the results of the past year with those of the two preceding years.

Submit a *pro forma* Manufacturing Account, which, in your opinion, will furnish the desired information in the most convenient form. (*C.I. Secretaries.*)

6. In a manufacturing business, what are some of the principal charges which should appear in the Manufacturing or Trading Account to produce *gross* profit or loss ? (*Chartered Accountants.*)

7. In closing the books of a manufacturing firm, how would you arrive at the amount representing the value of " work in progress " ? How would such an item be treated in the annual accounts ? (*Royal Society Arts.*)

8. A manufacturer sends out from time to time considerable quantities of goods on "Appro." or "Sale or Return." How would you advise that these should be dealt with in the manufacturer's books, and how should they appear in his Balance Sheet? (*Chartered Accountants.*)

9. In a manufacturing business, what classes of Salaries and Wages should be charged against the cost of Manufacture, and which against Profit and Loss. (*Chartered Accountants.*)

10. When returnable cases and tins are charged by a trading firm to its customers at a price in excess of cost, how would you recommend they should be dealt with (*a*) in the books of the firm; (*b*) for the purposes of the Balance Sheet? (*Chartered Accountants.*)

11. The Blank Electrical Engineering Co., Ltd., purchased a large quantity of lead early in 19.., for which they paid £16 per ton. On December 31, two years later, 500 tons remained in stock, the market price, as on that date, being £36 per ton. Some of the directors desire to value the lead at the latter price, but others contend that the original cost price should be adhered to as the stock of lead is being constantly drawn upon for maintenance contracts entered into at pre-war prices.

The matter is referred to you as auditor to the company.

What advice should you offer, and why? (*Chartered Accountants.*)

12. The market price of copper has fallen very heavily in value during the last few weeks of the year, and on December 31st is 20 % below the average price of the year. A firm, whose manufacture is exclusively of copper goods, have contracts running for the delivery of copper to it at prices considerably above the market quotation of December 31st, and also have on hand a large stock of raw material and finished and partly finished goods. They ask your advice as to the proper basis on which to value on December 31st: (1) their stock of raw material; (2) their stock of finished goods; (3) their stock of partly finished goods. State what you would advise under each head, and your reasons for such advice. (*Chartered Accountants.*)

13. Is the Profit and Loss Account, as set out below, properly drawn up? *If not, submit the account as you would present it.*

PROFIT AND LOSS ACCOUNT (DECEMBER 31, 19..).

	£		£	£
To Salaries	820	By Stock..	18,200	
" Depreciation	1,401	*Less* January 1st.. .	17,400	
" Purchases	42,600			800
" Returns	362	" Interest on Investments	3,400	
" Discounts	421	*Less* loss on sale of Investments.. . .	900	
" Dividend paid	3,842			2,500
" Directors' fees	1,000			
" Trade Expenses	1,200	" Balance from last year's account		4,321
" Dividend (5 % for year)	6,200	" Sales		59,040
" Manufacturing Wages	3,280	" Error in Books		120
" Transfer to Reserve Account ..	1,000	" Unclaimed Dividends ..		321
" Balance carried to Balance Sheet	2,876			
	£68,002			£68,002

(*Royal Society Arts.*)

14. At balancing period there are sundry closing entries to be made both of the nature of abate and rebate, but essential to an accurate statement of affairs. Name such items likely of occurrence in trading and manufacturing. (*Incorporated Accountants.*)

15. The manager of a manufacturing concern, of which you are auditor, is paid partly by salary and partly by commission. Under the agreement for service, in case of dispute as to the commission payable, the auditor's decision is to be final.

Such a dispute has arisen, and in order that your decision may be wholly unbiased, the Profit and Loss figures are given to you, without any indication as to which are the items in dispute. Following are the figures supplied, and you are asked to prepare and certify statements showing: (*a*) the

manufacturing profit; (*b*) the percentage of net profit to the manufacturing cost.

	Dr. £	Cr. £
Stock at January 1st	1,500	
Purchases	2,000	
Manufacturing Wages and Salaries ..	2,000	
Office Salaries	410	
Discount on Sales	150	
Carriage inwards	100	
Carriage outwards	120	
Printing and Stationery	70	
Rents and Rates	390	
Travelling Expenses..	130	
General Expenses	290	
Discount on Purchases		100
Sales		6,000
Stock at December 31st..		1,800
	£7,160	£7,900

In answering this question, the detail must be shown. (*Chartered Accountants.*)

16. If you found the stock of a manufacturing company much larger at the end of the year than at the beginning, and also the percentage of gross profit larger than in previous years, and on referring to a previous year's accounts (where the stock at the end was much less than at the beginning) you found the percentage of gross profit less than in other years when there was not a similar difference in the stock, what inference would you draw from the facts, and why? (*Chartered Accountants.*)

17. A firm of piano manufacturers are disappointed with the result of the year's trading for 19.. as compared with the previous year. The partners ask you to examine their accounts with a view to offering useful criticism or advice.

Upon examining the Trading Accounts in detail you find the following:—

	1st Year.		2nd Year.	
	Cost.	Per cent on Output.	Cost.	Per cent. on Output.
	£		£	
Raw materials used ..	12,400	38·63	13,423	40·07
Wages	5,926	18·46	11,634	34·73
Factory power . ..	1,260	3·92	1,199	3·57

Assume that trade conditions were normal, and that all wages were paid on a piece-work basis.

Report briefly upon the conclusions you would draw from the above data. (*Chartered Accountants.*)

18. H. E. Richardson is a manufacturer of electrical appliances. The undermentioned items have been extracted from the trial balance of his books as on December 31, 19...

Commencing Stock, £5,632; Closing Stock, £6,226; Purchases, £18,752; Sales, £46,842; Returns outwards, £1,121; Returns inwards, £321; Manufacturing Wages, £9,462; Discounts on Purchases, £462; Factory Power, £952; Travellers' Salaries and Expenses, £5,321; Factory Expenses, £548; Carriage inwards, £572; Carriage outwards, £785; Depreciation of Plant, £721, Office Salaries, £2,341.

Prepare a Manufacturing Account from such of the items as you consider applicable, and show the percentage rates of each item on the turnover for the year. (*Royal Society Arts.*)

19. Explain the information and advantages to be obtained by a careful tabulation of comparative statistics and percentages in relation to · (*a*) Gross Profit, (*b*) Wages, (*c*) Stock, (*d*) Material, (*e*) Costs of Distribution, (*f*) the detection of fraud in accounts. (*Incorporated Accountants.*)

20. What advantages and disadvantages do you see in presenting along with a Revenue Account a tabular system of percentages? Draw up an imaginary account of this kind for three years in connection with any business with which you are familiar, and make a report stating the conclusions you have come to from the figures. Point out fallacies that may arise from a study of percentages alone. (*Incorporated Accountants.*)

21. Percentages of gross profits are calculated on the turnover or selling price of goods and also on the buying price. Give illustrations with figures of the two methods and state which you prefer and why. (*Incorporated Accountants.*)

22. Clients of yours, who are chemical manufacturers, are anxious to institute a system of percentages in connection with their Annual Trading Accounts in order that they may watch results more closely. They ask you to advise them as to the best basis to adopt when calculating the percentages of cost.

Suggest alternative methods, compare their merits, and advise which you consider best in the circumstances. (*Chartered Accountants.*)

23. Take the figures for three years from the Trading Accounts of any business with which you may be familiar under the heads of Sales, Purchases, Returns and Discounts, Wages, Carriage, Packing. Set them out in a tabular form so arranged that the proprietors can derive from them all the information possible as to comparisons and percentages. (*Incorporated Accountants.*)

24. What are the advantages of a Trading Account and Profit and Loss Account shown separately over a Trading and Profit and Loss Account combined? Show in what way light can be thrown on transactions recorded in Trading and Profit and Loss Accounts if percentages or rates per unit are given in the margin. Mention units commonly in use, and the classes of undertaking to which they are applicable, and say how it is that percentages of turnover (i.e. sales) are in some respects unsatisfactory. (*Chartered Accountants.*)

25. From the following Trading Account ascertain and state. (*a*) the cost of materials used; (*b*) the value of the output of manufactured goods, (*c*) the percentage of gross profit on sales.

TRADING ACCOUNT.

	£	£		£	£
To Stock—			By Sales		42,000
Finished Goods ..	4,000		Stock—		
Raw Materials ..	1,200		Finished Goods ..	3,500	
		5,200	Raw Materials ..	1,400	
Purchases		12,000			4,900
Wages		20,000			
Carriage		1,000			
Gross Profit.. ..		8,700			
		£46,900			£46,900

(*Incorporated Accountants.*)

26. In a manufacturing business, where the expenditure necessary to keep the works in proper order and efficiency varied very greatly from year to year, how could this expenditure be dealt with in the yearly accounts, so that the profits available for dividend should not fluctuate greatly by reason of such expenditure being so variable? (*Chartered Accountants.*)

27. As auditor to a manufacturing company, do you consider that it is your duty to devote any consideration to the percentages of gross profit earned as between one period and another? If you consider yourself under

any obligation in this respect, (*a*) select a type of manufacturing business with which you are familiar, and submit a *pro forma* Manufacturing Account, giving figures for two years; (*b*) describe the procedure you would follow when comparing the two periods, and (*c*) the deductions you would draw from the figures you submit. (*Chartered Accountants.*)

28. Draft forms suitable for the following partnership statistics: (*a*) Comparative Departmental Results; (*b*) Travellers' results (there are ten travellers, five home and five foreign). (*Incorporated Accountants.*)

29. Draw up a scheme, with illustrations of your own, for determining the percentages which the various items of charges bear to the turnover, and arrange your figures in such a manner as to indicate items where further investigation into the accounts is necessary. Point out any obvious dangers arising from a purely mechanical interpretation of variations in percentages. (*Incorporated Accountants.*)

30. The accounts of a business for the year 19.. show a net profit of £15,800; this is an increase of £5,580 over the previous year, which on an analysis and comparison of the two years you find made up as follows:—

	1st Year. £	2nd Year. £
Stock, January 1st	1,200	1,310
Stock, December 31st	1,340	2,070
Increase in Sales		3,200
Decrease in Returns inwards		740
Decrease in the provisions for depreciation		300
Increase in Trade Charges		150

The Purchases were practically the same each year.

What would be your procedure on the foregoing information and what further steps would you take? Give reasons for the answer you make. (*Incorporated Accountants.*)

31. The following is a statistical return in the form of a Percentage Analysis (on the basis of sales) of a manufacturing business, and you are required to make observations thereon, interpreting and criticising the return:—

	1926.	1927.	1928.	1920.	1930.	1931.	1932.
Cost Price of Material	53·64	56·58	59·53	58·51	60·33	55·52	55·63
Productive Wages	14·71	16·37	15·10	16·07	14·45	18·32	15·33
Gross Profit	31·65	27·05	25·37	25·42	26·22	26·16	29·01
Non-Productive Wages	3·34	3·74	4·33	3·30	3·48	3·90	3·42
Office Wages	0·66	0·81	0·82	1·16	0·80	0·93	0·87
Carriage	4·53	4·30	4·09	4·18	3·94	3·96	4·41
Fuel	0·39	0·46	0·46	0·42	0·43	0·36	0·31
Lighting	0·91	0·67	0·81	0·78	0·73	0·83	0·91
Bank Charges	0·29	0·46	0·66	0·92	1·14	1·08	0·94
Other Expenses..	10·63	11·52	9·56	7·74	7·36	8·06	7·75
Depreciation	1·05	1·81	2·02	2·12	2·17	2·26	1·90
Net Profit	9·22	3·28	2·62	4·80	5·81	1·78	8·50
	31·65	27·05	25·37	25·42	26·22	26·16	29·01

It is understood that you are at liberty to make, or suggest, any further investigation wherever desirable. You are asked to confine your attention to the items other than "Other Expenses." (*Incorporated Accountants.*)

32. A large firm of seed crushers own a number of mills in various parts of the country. They desire to standardise their forms of annual accounts so that the working results of each mill may be compared.

Their instructions are:—

BALANCE SHEETS.

Total liquid assets to be disclosed at a glance.
Total fixed assets to be disclosed at a glance.
Total nominal assets to be disclosed at a glance.
Total liabilities to be disclosed at a glance.
Total capital and reserves to be disclosed at a glance.

GROSS TRADING ACCOUNTS.

Quantities to be accounted for, and gain or loss in working shown.

Yield of seed crushed to be shown at foot of accounts by way of memorandum.

NET TRADING ACCOUNTS.

Working expenses to be shown under convenient groups, together with the cost per ton of seed crushed.

It is in fact desired that these accounts may be a guide to the management, and disclose both the ordinary results and the "cost" results.

Draw up the necessary set of forms. (*Incorporated Accountants.*)

33. From the following summary of the transactions of F and D for their first year's trading, prepare tabular Trading and Profit and Loss Accounts, showing percentages where desirable.

Departments.	A.	B.	C.	D.	E.
	£	£	£	£	£
Purchases	11,500	10,000	1,500	5,500	3,500
Sales	12,000	9,100	1,300	4,900	2,700
Stock in hand . ..	1,480	3,625	375	1,590	1,150

Expenses (to be charged to each department in proportion to the sales). Salaries and Commissions, £1,260; Rent, Rates, and Taxes, £360; Carriage, £412; Discounts, £363; General Expenses, £480; Insurances, £105. (*Incorporated Accountants.*)

34. When auditing the accounts of a manufacturing company, you find the following information is disclosed by a comparison of the Manufacturing Accounts for the past two years.—

	First Year		Second Year	
	Cost.	Per cent on Output.	Cost.	Per cent on Output.
	£		£	
Raw Materials	12,800	9·46	13,200	10·75
Factory Power	3,200	2·72	3,950	3·15
Factory Wages . ..	6,390	4·71	8,150	6·24
Packing and Carriage	2,760	1·51	2,220	1·21

Assume that trading conditions are normal and that all wages are paid by piece work

Report to the firm in respect of any conclusions suggested to you by the above figures, and indicate the direction in which investigation on their part might prove fruitful (*Chartered Accountants.*)

35. The understated figures were extracted from the books of A. Hartman:—

	1st Year.	2nd Year
	£	£
Purchases	3,872	4,561
Manufacturing Wages	1,572	1,612
Factory Power	911	950
Carriage inwards	430	481
Initial Stock	2,751	2,640
Final Stock	2,692	2,981
Sales	9,450	10,175

Prepare a comparative Manufacturing Account from the above figures and state the expenditure items in terms of percentages of the turnover. (*London Chamber Commerce.*)

36. On completion of the audit of S. & Co., Ltd., the following statistics are put before you. Give your instructions to your staff in relation thereto.

	1st Year.		2nd Year.		3rd Year	
	Per cent	£	Per cent.	£	Per cent	£
Net Purchases	68·40	6,840	69·00	6,900	60·37	6,037
Wages	10·10	1,010	10·00	1,000	13·50	1,350
Gross Profits	21 50	2,150	21·00	2,100	26 13	2,613
	100 00	10,000	100·00	10,000	100 00	10,000
Rent, Rates, and Taxes ..	2·50	250	2 00	200	3·00	300
Salaries and Commission ..	6·00	600	6·18	618	6·32	632
Interest	1·50	150	1·50	150	1·50	150
Bad Debts	0·62	62	0·57	57	0 51	51
Trade Expenses	0 80	80	0·85	85	0·88	88
Discounts	2 50	250	3 00	300	8·00	800
Stable Expenses..	1 87	187	4·00	400	2 00	200
Insurance	0 24	24	0 21	21	0 25	25
Net Profit	5·47	547	2 69	269	3·67	367
	21·50	2,150	21·00	2,100	26·13	2,613

(*Incorporated Accountants.*)

37. George Hargreave commenced business as a builder on January 1, 19... He owns a gravel pit, from which he obtains material useful to him in executing his building contracts. From the following figures, obtained from his books, you are required to prepare the gravel pit Working Account for the past year to December 31, 19.., so as to enable him to charge the gravel he uses for his various contracts at the cost price per load. The gravel pit is leased to him for twenty-four years at a rental of £10 a year, and this he has duly paid. The equipment, consisting of the necessary screening machinery, etc., has cost him £552. The wages of the men at the pit for the year have been £247, while supplies to the department, issued from the general stores (as shown by the store-keeper's records), were implements £43 15s. 6d., coal and coke £20 5s. 5d., and sundries £11 11s. 1d. Sales of gravel at the pit to outside purchasers amounted to 1,568 loads at 2s. 6d. per load. Mr. Hargreave has used on his contracts during the year 2,304 loads of gravel, carted from his pit with his own carts, to cover which he has charged his gravel pit Working Account 4½d. a load. In preparing the account you are required to provide for writing off the value of the equipment over the period of the lease, by equal annual amounts; and, as he allows the pit the benefit of any profit on outside sales, to charge the Working Account with interest at 5 per cent. per annum on the equipment. (*Royal Society Arts.*)

38. TRADING ACCOUNT, YEAR ENDING DECEMBER 31, 19...

	£	s.	d.		£	s.	d.
To Value of Stock, Jan. 1st ..	10,543	12	6	By Sales after deducting Returns and Discounts ..	60,132	15	8
,, Material purchased	43,763	13	9	,, Rents received	1,352	12	6
	54,307	6	3	,, Profit and Loss Account, Transfer of Balance ..	2,186	4	5
Less Value of Stock, December 31st	9,763	9	3				
	44,543	17	0				
,, Wages	15,367	8	4				
,, Salaries	2,315	19	11				
,, Rent	747	12	6				
,, Rates, Taxes, and Insurance	365	11	2				
,, Repairs and Renewals of Plant, etc.	215	0	7				
,, Office Expenses and Incidentals	116	3	1				
	£63,671	12	7		£63,671	12	7

PROFIT AND LOSS ACCOUNT.

	£ s. d.		£ s. d.
To Trading Account	2,186 4 5	By Balance (Loss)	5,334 11 1
" Interest on Partners' Capital	2,150 0 0		
" Bad Debts	433 6 8		
" Interest on Loans	565 0 0		
	£5,334 11 1		£5,334 11 1
To Balance	5,334 11 1		

Report briefly on the above accounts of a manufacturing business for the information of the partners.

(Chartered Accountants.)

39. The undermentioned figures have been extracted from the Trial Balance of the Blankshire Iron Co., Ltd., whose financial year closes on June 30th. Prepare a Furnaces Account showing the cost per ton of the pig iron produced, a Trading Account and a Profit and Loss Account.

BALANCES EXTRACTED FROM TRIAL BALANCE, JUNE 30, 1931.

	£
Coal purchased	7,320
Coke and Limestone purchased	19,550
Ironstone purchased	7,461
Wages (Furnaces)	6,842
Sales of Pig Iron	62,416
Stock of Pig Iron (June 30, 1922)	9,402
Trade Charges	5,421
Sales of Waste Materials and By-products ..	5,862
Office Salaries	3,401
Directors' Fees	1,500
Transfer Fees	52
Depreciation	3,890
Interest received	321
Bad Debts	1,680

The stock of pig iron in hand as on June 30, 1931, was valued at £9,221. The pig iron produced during the year amounted to 18,000 tons. *(London Chamber Commerce.)*

40. Explain concisely the difference between a Statement of Income and Expenditure and an Account of Receipts and Payments, and the difference between a Trading Account and a Profit and Loss Account *(Chartered Accountants.)*

41. Explain the difference (if any) between a Revenue Account, an Income and Expenditure Account, and a Receipts and Payments Account. *(London Chamber Commerce.)*

42. Is there any difference between a Receipts and Payments Account and an Income and Expenditure Account ?

The following particulars relate to the Chilworth Literary Society for the year ended December 31, 19.. : Subscriptions received, £110 ; Interest received on Investment, £38 ; Net Proceeds received from Lectures and Concerts, £232 ; Rent paid for use of Hall, £21 , Petty Cash Payments, £10 ; Advertising paid, £21 ; Printing Expenses paid, £12 10s.

The Society holds ten 4 % debentures of £100 each in the Universal Library, Ltd. As on December 31, 19.., the Society owed £8 for Rent of Hall and £9 10s. for Printing

Prepare the Society's Annual Statements of Account for the year ended December 31, 19... *(London Chamber Commerce)*

43. Distinguish between a Receipts and Payments Account and an Income and Expenditure Account. Would the former give a correct indication of the results of carrying on a Club for a given period ? If not, in what would it be defective ? *(Chartered Accountants.)*

44. What is the chief difference between a Receipts and Payments Account and an Income and Expenditure Account ? In what undertakings are these forms of accounts respectively made use of ? *(Royal Society Arts.)*

45. Why is a Receipts and Payments Account unsatisfactory as an indication of the result of carrying on a business for a period? (*Chartered Accountants*.)

46. In the case of a religious or charitable undertaking where the income from investments in Government and Public Securities, Subscriptions, Donations and Legacies only is dealt with, how would you require the sums invested to appear in the published accounts? (*Chartered Accountants.*)

47. Submit rulings suitable for a set of books to record the accounts of a cottage hospital, and give a specimen set of accounts in the form you would advise the committee of the hospital to adopt for publication to Subscribers.

Assume that the hospital is endowed with a fund of £10,000 Consols (taken at 65), but is otherwise dependent upon public subscriptions and donations. (*Chartered Accountants.*)

48. Into what accounts of a charitable institution would you bring Legacies, Donations, Annual Subscriptions, and Life Subscriptions? (*Chartered Accountants.*)

49. How would you treat Legacies, Donations, Subscriptions, and Interest from Investments, in the accounts of a charitable institution? (*Chartered Accountants.*)

50. Frequently so-called Balance Sheets are exhibited, particularly by charitable societies, whereas really they are only Cash Accounts. What further is necessary to make them complete Balance Sheets, showing the true financial position? (*Chartered Accountants.*)

51. A hospital, whose accounts are published in the form of an Income and Expenditure Account, receives a legacy of £1,000. Do you consider this should appear in the Income and Expenditure Account? Give your reasons. (*Chartered Accountants.*)

52. An auditor meets amongst charitable institutions the following classes of cases: (1) small institutions without property, or trading, or indebtedness at the close of the year; (2) larger institutions having property but not carrying on trading operations (*a*) without indebtedness, (*b*) with indebtedness; (3) institutions having property, carrying on trading operations, and with indebtedness at the close of the period. What accounts should he recommend to be presented to the subscribers in each case? (*Chartered Accountants.*)

53. What form of Annual Account would you recommend for a small charity, such as a convalescent home, the expenses of which are met by subscriptions and donations? How would you bring into account outstanding liabilities due but unpaid at the end of the year. (*Chartered Accountants.*)

54. Show the ruling and headings you would adopt for the Cash Book of a charitable institution, having income from Subscriptions, Legacies, Capital Donations, and Payments from Inmates, and expenditure on Building, Maintenance and Usual Expenses; also insert five transactions on each side. (*Chartered Accountants.*)

55. A war charity fund received for the six months ended December 31, 1931, £14,676 9s. 7d., and interest on investments, £180 19s.

The administrative expenditure amounted to £3,838 10s. 6d., and included £1,699 5s. 10d., the cost and expenses of making appeals for funds. The Expenditure on Relief amounted to £5,213 9s. 11d., and on Loans to £781. The latter were not regarded as recoverable, but it was deemed advisable to leave the accounts open. At the commencement of the period there was £2,000 invested in 4½ % War Loan which cost £1,977 5s., and this was unrealised at the date you are instructed to prepare a Balance Sheet and Income and Expenditure Account (January 1, 1932). The cash at the Bank at July 1, 1931, was £505, and at December 31, 1931, the various committees were authorised to spend up to the following limits: A, £3,416 4s 2d.; B, £2,800 3s. 10d.; C, £1,100 5s. 2d.

Add to the accounts you draft, a report expressing your opinion on the situation as disclosed by them. (*Incorporated Accountants.*)

56. Are the accompanying accounts correctly shown? (*a*) As to name; (*b*) as to form. If not, how should they be amended?

WOMAN'S SUFFRAGE ASSOCIATION.

Dr. ACCOUNTS OF RECEIPTS AND GENERAL EXPENDITURE TO DECEMBER 31, 19... Cr.

Dr.	£ s. d.	£ s. d.	Cr.	£ s. d.	£ s. d.
To Entrance Fees—			By General Expenditure—		
200 Lady Associates at £10 ..	2,000 0 0		Rent, Rates and Taxes	49 3 2	
150 Male Honorary Members at £5	750 0 0	2,750 0 0	Salaries of Lady President and Finance Secretary	1,500 0 0	
„ Income from Investment of Funds for Parliamentary purposes		250 0 0	Expenses of Deputations	252 5 7	
			Law Charges	123 0 2	
			Printing, Stationery, Advertising, etc.	341 9 6	2,265 18 5
			„ Preliminary Expenses incident to the formation of the Association		203 2 5
			„ Balance carried down		530 19 2
		£3,000 0 0			£3,000 0 0

Dr. BALANCE SHEET, DECEMBER 31, 19... Cr.

Dr.	£ s. d.	Cr.	£ s. d.	£ s. d.
To Balance of Account of General Expenditure ..	530 19 2	By Furniture at Cost		234 6 2
„ Sundry Unpaid Accounts	5,062 1 6	„ Tracts and Sundry Publications for Distribution, copies of Hansard, etc.		302 9 8
		„ Amount Invested—		
		Fiji Stock	3,000 0 0	
		Turkish Bonds	2,000 0 0	5,000 0 0
		„ Cash at Bankers	56 1 11	
		„ Cash in Finance Secretary's hands	0 2 11	56 4 10
	£5,593 0 8			£5,593 0 8

(*Chartered Accountants.*)

57. From the following particulars compile the accounts for the year ending December 31, 1931, to be submitted to the annual meeting of the members of a golf club.

		£	s.	d.
1	Entrance Fees and Subscriptions received on account of 1930 (these were estimated at £9 9s.)	10	10	0
2	Subscriptions received on account for 1931	1,050	0	0
3	Entrance Fees received on account for 1931	73	10	0
4.	Entrance Fees and Subscriptions received on account for 1932	52	10	0
5.	Locker Rents received for 1931	35	0	0
6.	Green Fees received for 1931	120	0	0
7.	Expenses, including Rent, for 1931 (of these £800 have been paid)	900	0	0
8	Liabilities of 1930, paid in 1931 (these were estimated at £70)	60	0	0
9.	Subscriptions owing for 1931. £21 taken as	12	12	0
10.	Stock (House Account), 1931	150	0	0
11.	Capital Expenditure, including Lease, 1930	1,000	0	0
12	Capital Expenditure in 1931	200	0	0
13.	Capital Expenditure written off	250	0	0
14.	Profit on House Account, including refreshments, after providing for the Staff	50	0	0
15.	Cash in hand	124	18	0
16.	Renewals paid in 1931	91	3	0
17.	Interest paid in 1931	20	0	0
18.	Loan on security of the Lease	500	0	0
19.	Surplus from 1930 account	494	0	0
20.	Fee to Treasurer's Clerk for 1931 not paid	20	0	0

(*Chartered Accountants.*)

58. The following yearly Statement, signed by an auditor, is copied substantially from that of a certain reformatory school:—

REVENUE STATEMENT FOR THE YEAR ENDING DECEMBER 31, 19..

	£	s.	d.	£	s.	d.
To Miss T 's interest	19	19	0			
,, Subscriptions ..	21	14	0			
				44	13	0
,, Government Account—						
Ordinary Grant	2,010	10	0			
Aid Grant, last year	332	10	0			
				2,343	0	0
,, County and Boro' Councils—						
Ordinary Grant	864	13	0			
Outfits Grant..	47	0	0			
				911	13	0
,, Band Receipts.	33	13	0			
,, Rent from Garden and Farm ..	138	17	6			
,, Sundry Profits..	4	10	2			
,, Income Tax ..	6	12	4			
				183	13	0
,, Balance, being loss on year				18	11	7
,, Garden and Farm, Gain ..				7	15	5
				£3,509	6	0

	£	s.	d.	£	s.	d.
By Clothing				222	0	0
,, Outfit				58	0	0
,, Stationery and Printing				65	0	0
,, Alterations and Repairs				88	0	0
,, Furniture				137	0	0
,, Salaries and Wages				637	0	0
,, Washing, Cleaning, Fuel, and Lighting				395	0	0
,, Provisions				965	0	0
,, Miscellaneous—						
Rates and Taxes..	62	0	0			
Insurance .. .	22	0	0			
Conveyance and Travelling.. ..	55	0	0			
Boys' Rewards ..	7	0	0			
Medical and Dental Expenses ..	79	0	0			
Band Expenses ..	160	0	0			
Sundries	165	7	4			
				550	7	4
				3,117	7	4
By Shops, Loss				0	6	8
,, Special Expenditure—						
Sewage disposal..	235	0	0			
Alterations to Building ..	156	12	0			
				391	12	0
				£3,509	6	0

What criticisms or comments would you offer upon the form and substance of the Statement, having regard to the following points? (1) The heading of the account; (2) the relative position of the two sides; (3) the position of the "balance" and its description as "loss on year"; (4) certain special or exceptional items of expenditure, which would usually—even if not capitalised—be spread over say three years. (*Chartered Accountants.*)

59. The following Statements of Account were presented to the members of a club in the two years mentioned :—

ABSTRACT OF RECEIPTS AND EXPENDITURE FOR THE YEARS 19.. AND 19...

(NOTE.—The accounts of the two years are placed side by side in the question for convenience.)

DR.

	1st Year £ s. d.	2nd Year. £ s. d.
To Balances from preceding year	800 0 0	1,168 0 0
,, Entrance Fees received	997 0 0	1,019 0 0
,, Subscriptions	7,574 0 0	7,631 0 0
,, Subscriptions received in advance for 2nd and 3rd years	84 0 0	42 0 0
,, Sales of Provisions, Wines, etc.	17,105 0 0	15,238 0 0
,, Receipts for Billiards, Cards, Cigars, etc.	1,222 0 0	1,072 0 0
	£27,782 0 0	£26,170 0 0

CR.

	1st Year.	2nd Year.	1st Year. £ s. d.	2nd Year. £ s. d.
By Rents, Rates, Taxes, etc.			2,753 0 0	2,811 0 0
,, Interest			1,877 0 0	1,999 0 0
,, Purchase of Provisions, Wines, etc.			14,980 0 0	13,438 0 0
,, Billiards, Cards, Cigars, etc			463 0 0	400 0 0
,, Salaries and Wages			3,248 0 0	3,231 0 0
,, Fuel, Lights, Repairs, Renewals, Additions to Furniture, etc			2,893 0 0	3,725 0 0
,, Club Debentures paid off			400 0 0	400 0 0
,, Balances at Bank and in hand	£4,135 0 0	£3,290 0 0		
Less Accounts outstanding included in Expenditure above	2,967 0 0	3,124 0 0		
			1,168 0 0	166 0 0
			£27,782 0 0	£26,170 0 0

BALANCE SHEETS.

DR.

	1st Year £ s. d.	2nd Year. £ s. d.
To Club Debentures	43,800 0 0	43,400 0 0
,, Subscriptions received in advance	84 0 0	42 0 0
,, Sundry Creditors	2,967 0 0	3,124 0 0
,, Balance in favour of the Club	9,385 0 0	9,037 0 0
	£56,236 0 0	£55,603 0 0

CR.

	1st Year.	2nd Year.	1st Year. £ s. d.	2nd Year. £ s. d.
By Club House			44,840 0 0	44,840 0 0
,, Furniture, Glass, etc.—				
Balance, Jan 1.	£6,000 0 0	£6,183 0 0		
Additions to Dec. 31	870 0 0	950 0 0		
	6,870 0 0	7,133 0 0		
Less Depreciation	687 0 0	713 0 0		
			6,183 0 0	6,423 0 0
,, Stock of Wines, etc.			1,023 0 0	975 0 0
,, Stock of Cigars, Cards, etc.			55 0 0	75 0 0
,, Cash at Bank and in hand			4,135 0 0	3,290 0 0
			£56,236 0 0	£55,603 0 0

State in what respects, as regards information, you would consider the above statements unsatisfactory to the members of the club

(Chartered Accountants)

60. The following Statement of Accounts of the Blankshire Benevolent Charity was submitted as shown for adoption at the annual meeting. You are invited to criticise it.

STATEMENT OF ACCOUNTS FOR THE YEAR ENDED JUNE 30, 19...

Receipts	£	s.	d.	Expenditure	£	s	d.
To Balance	457	6	5	By Annuities	805	0	0
„ Interest on Investments	207	18	4	„ Salary—			
„ Donations	383	12	6	Secretary	25	0	0
„ Special Appeal	182	14	0	Treasurer	25	0	0
„ Income Tax returned	24	13	8	„ Incidentals	0	18	3
„ Stamps overcharged	3	0	0	„ Printing	8	3	6
„ Bank Interest	8	19	0	„ Chief Rent	5	9	4
„ Amount Banked in error	1	1	6	„ Law Charges	9	8	0
				„ Bank Commission	2	8	9
				„ Sundries	8	12	2
				„ Balance in Bank	412	5	5
	£1,332	5	5		£1,332	5	5

PRESENT FUNDS.

		Cost.		
2½ %	Midland Railway Debenture Stock	1,168	6	8
3 %	London and North-Western Railway Debenture Stock	1,255	18	4
4 %	Lancashire and Yorkshire Guaranteed Stock	923	16	9
3 %	Manchester Corporation Stock	514	1	10
3½ %	Blackpool Corporation Stock	500	0	0
3¾ %	Stockport Corporation Stock	2,500	0	0
	Mortgages at 4 %	3,300	0	0
		£10,162	3	7

Audited and certified correct,
HERBERT TRUSTEM

The Securities upon which the present Funds of the Institution are invested were produced to, and examined by us, and we certify that they are in perfect order and in safe custody.

WILLIAM T SUPPLETON, *Chairman*.
JAMES UNION, *Vice-Chairman*.
(*Incorporated Accountants.*)

61. From the following Receipts and Payments Account of a charitable institution, and the subjoined information, prepare General Income and Expenditure Account for the year ended December 31, 19.. :—

RECEIPTS AND PAYMENTS ACCOUNT.

19...		£	£	19 ..		£	£
Jan. 31.	To Balance—			Dec. 31	By Payments to Pensioners		1,205
„	Cash on deposit.	500		„	„ Rent, three quarters		75
„	Cash on current account	116		„	„ Office Expenses and Salaries		275
„	Cash in hand	7		„	„ Collector's Commission		37
			623	„	„ Printing Year Book, etc.		26
Dec 31.	„ Donations and Subscriptions		1,272	„	„ Postages		18
„	„ Legacies		400	„	„ Gratuities from Special Fund		143
„	„ Special Fund Donations		170	„	„ Investment in £500 Birmingham 3 % Stock		300
„	„ Interest on Investments		135	„	„ Balance—		
„	„ Interest on Deposit		24	„	Cash on deposit	£100	
				„	Cash on current account	73	
				„	Cash in hand	12	
							485
			£2,624				£2,624

The committee of management resolve that one-half of legacies received shall be treated as income, the remainder being capital, and that the "Special Fund" should be separated from the "General Funds." Bring into account income tax recoverable. A quarter's rent was unpaid at December 31st. Sundry persons owed £15 for advertisements in the Year Book. (*Chartered Accountants.*)

CHAPTER III

Capital and Revenue. Goodwill. Depreciation. Sinking Funds. Reserves.

Capital and Revenue.

It would appear that students are frequently taught to analyse a trial balance, or list of ledger balances, into its component "Capital" and "Revenue" items by various rule-of-thumb devices That the student should be guided in this connection by rules is doubtless advantageous. Too many examinees, however, insufficiently understand these stereotyped methods of analysis to be able to apply them intelligently, and are brought to an abrupt standstill by any item which in the least diverges from the details, which commonly compose an examination trial balance As a fact, one of the most difficult tasks confronting the practical book-keeper is the nice adjustment of expenditure as between capital and revenue. It is vital to accurate accounting that these adjustments should be sound in principle. Under the double-account system, which is dealt with in Chapter XII, Parliamentary companies are obliged to present their accounts in a form which distinguishes between capital and revenue expenditure to a marked degree. Discrimination between the two classes of expenditure is probably most frequently required in connection with additions to, or alterations in, fixed assets: such, e.g., as Buildings, Machinery and Plant, Fixtures and Fittings, Patterns, Patents, and the like. Incorrect allocation of expenditure in these connections will obviously falsify the whole of the financial results. It is frequently difficult to decide as between replacements, renewals and repairs, i.e. revenue expenditure, and additions, i.e. capital expenditure. On the other hand, failure to deal correctly with capital receipts, e.g. receipts from the sale of fixed assets, will prove equally disastrous. Again the same class of expenditure may be either capital or revenue according to circumstances. If, for example, an engineer employs his workmen in making loose tools or machinery for use in his own factory, the wages of the men engaged upon this work represent capital expenditure, and should be debited to the asset account which records the cost of the loose tools or machinery made. Similarly, legal expenses and architect's fees incidental to the acquisition, or erection, of property is capital expenditure and may be legitimately added to the cost of the asset.

Capital.—It is assumed that the student has already acquired

an adequate understanding of the term "Capital." It may be advisable to remind him, however, that, from the economist's point of view, *Capital* embraces all funds or property employed, or to be employed, in earning or reproducing wealth. In short, capital is "wealth employed to produce wealth." The commercial man sometimes applies the term to the whole of the assets and property required to equip an undertaking for earning revenue. From an accountant's point of view the capital of the proprietor of a business is the surplus of his assets over his liabilities to outsiders. This, of course, is not the actual capital but the measure of it. The lawyer has yet another view of capital, but that does not concern us here. In the case of a limited company, capital is not a fluctuating quantity, the term being employed to signify the amount paid up by the shareholders in respect of their holdings.

Capital is sub-divided into *Fixed* (Revenue producing) and *Floating* or *Circulating Capital* (held for conversion into cash). These distinctions have been fully explained in the book-keeping text-books, and need not be enlarged upon in this place.

Revenue.—The term "Revenue" embraces all profits, earnings, or other income derived from the employment of capital possessions, or personal skill.

Revenue Expenditure.—At a recent examination, a candidate defined revenue expenditure as "that which is incurred in acquiring or losing capital" This definition may be unconventional and open to objection, but, probably, it is often nearer the truth than the candidate suspected. It should not be difficult during the inauguration of a new undertaking to decide the character of the expenditure. Presumably, the undertaking has been started in order to earn income in a specific direction. Until it is adequately equipped for the purpose, all expenditure will be capital expenditure. But when revenue has begun to be

NORTH-WEST BORNEO RUBBER CO., LTD.

BALANCE SHEET.

(*Credit Side.*)

	£	s.	d.	£	s.	d.
Estates Account—						
Purchase of Property in accordance with the terms of the prospectus at cost	110,500	0	0			
Add Development expenditure on the estate during the year	30,684	10	2			
Purchase of Malapp Estate at cost	10,000	0	0			
London Office Expenses	1,268	10	8			
	£152,453	0	10			
Less Sales of Rubber and Transfer Fees	782	0	0			
				151,671	0	10
Preliminary Expenses Account				950	10	2
Cash advances outstanding				500	0	0
Cash at Bank				1,921	0	0
				£155,042	11	0

earned, expenditure will then require scrutiny in order to determine whether it is to be charged to capital or to revenue.

A familiar illustration of the treatment of expenditure during the period of development is presented by the early Balance Sheets of Mining, Rubber and other Plantation companies, of which a typical extract is given on p. 56.

It is not easy to frame a test which will sort all future expenditure as between capital and revenue. Broadly speaking, it may be said that expenditure which extends or enhances the earning capacity of the original equipment, and enables it to earn more income, or to work at smaller cost, is capital expenditure. All other expenditure must be charged against the revenue earned by the equipment.

By way of illustrating the above principles it may be well to take an enterprise possessing comparatively simple sources of revenue.

Illustration.—The Blanktown Picture Theatre, Ltd., was registered with a nominal capital of £30,000 in 30,000 shares of £1 each. Of this capital 28,000 shares were issued, fully subscribed, and paid. During the year which elapsed before the theatre was opened the expenditure was as follows: Preliminary expenses: Registration of Company, Stamp Duties, Law Costs, etc., £1,600 (*g*); Cost of Freehold Land, £2,000 (*a*); Law charges in connection therewith, £34 (*a*); Cost of Building Theatre, £15,000 (*a*); Architect's Charges, £750 (*a*), Decorations, £420 (*a*); Seating, Carpets, Gas and Electric Light fittings, £1,550 (*b*); Purchase of right of way for emergency exit, £250 (*a*); Organ, Piano, Instruments, etc., £365 (*b*); Uniforms of Staff, £25 (*c*); Lanterns, Electric Motor and Operating Plant, £4,360 (*d*); Office Furniture, £150 (*e*); Check-taking Machine, £25 (*b*); Stock of Chocolates, etc., £20 (*f*).

A Balance Sheet prepared at the moment when the theatre was opened would be as follows:—

BLANKTOWN PICTURE THEATRE CO., LTD.

BALANCE SHEET.

	£		£
Capital—		Freehold Land and Theatre at cost (*a*)	18,454
Nominal. 30,000 Shares of £1 each £30,000		Fixtures, Furniture, Fittings and Musical Instruments at cost (*b*)	1,940
Issued: 28,000 Shares of £1 each fully paid ..	28,000	Uniforms at cost (*c*)	25
		Electric Motors and Plant at cost (*d*)	4,360
		Office Furniture at cost (*e*)	150
		Refreshment Stock (*f*) ..	20
		Preliminary Expenses (*c*)..	1,600
			26,549
		Cash	1,451
	£28,000		£28,000

By the time that the theatre was opened, £26,549 had been spent on its equipment. The whole of this expenditure is capital expenditure. It is grouped, as shown above, for convenience in determining the proper depreciation on the capital expenditure.

The items (*a*), representing cost of land and buildings, form the main asset which, because the property is freehold, will not, in normal circumstances, need depreciation. This total (£18,454) includes the cost of the original decorations, but when these are renewed the cost of renewal will be charged to revenue. The item also includes law costs and architect's fees. These expenses are legitimate additions to the asset account as the land could not have been acquired or the building erected without such professional assistance. Fixtures, furniture and musical instruments are separately stated as they are subject to heavy depreciation. Uniforms will be renewed every year, and the cost charged to revenue. If this is done it would be legitimate to leave the original capital expenditure upon the books, but, in practice, this item is usually entirely eliminated. The preliminary expenses are quite correctly treated in the initial Balance Sheet as capital expenditure: but, as the student is aware, it is customary to write off such expenditure over three or five years. The stock of chocolates will, of course, remain in the books at cost until the close of the first financial period. The item will then be transferred to the Trading Account, and replaced in the Ledger by the new stock figure disclosed by valuation at the end of the year, or half-year as the case may be.

The *Working Capital* of the company would appear to be £1,471, i.e. Cash, £1,451, and stock of chocolates held for sale, £20. The term "Working Capital" indicates the funds or property which remain available for working an undertaking after the purchase of the fixed assets held for income-earning purposes.

During the Company's first year several items of expenditure occurred the book-keeping treatment of which needed consideration.

Item 1.—The reed organ, which cost £200, was sold for £100, and replaced by a pipe organ costing £650.

The new organ enhanced the attractiveness of the music and was a valuable acquisition. There is no doubt that it should stand in the company's books as capital expenditure at cost price, i.e. £650. There is, however, already an asset account in the books representing the capital expenditure upon the reed organ (£200). This account will be credited with the £100 cash realised by the sale of the organ, and the balance (£100) must be written off to Profit and Loss as representing "loss on sale of reed organ." In practice, this sum would probably be debited to Depreciation Account.

Item 2.—As the result of a gale, the roof of the vestibule of the theatre was damaged, and the wall-paper was destroyed by rain-water. The original cost of papering the vestibule was £10. The paper destroyed was replaced at a cost of £15, the increased cost being due to a rise in the price of paper.

The original cost of decorating the theatre (£420) was charged to capital, and included in the "Land and Buildings" figure in the Balance Sheet. A portion of the work then done, i.e. the

decoration of the vestibule, was destroyed, and made good at an increased cost The fact that the paper has been replaced, even at an increased cost, does not in any way add to the value of the theatre The expenditure merely restores the asset to its original condition, and must therefore be treated as revenue expenditure

Item 3—The Borough Council insisted upon the front entrance doors of the theatre being set back and re-swung. In carrying out this work the mosaic floor was damaged and had to be partly relaid The total cost of the alteration was £36 During the progress of this work the opportunity was taken of replacing the plain skylight of the entrance with a decorative stained glass design, the cost of which was £53.

The cost of removing the doors is not capital expenditure. It is merely an alteration, and however annoying the incident may be to the proprietors of the theatre, they are not entitled to add the cost to the asset value of the theatre It may have effected an improvement from the point of view of public safety, but probably it has had the opposite effect architecturally. In any case it does not add to the capital value of the theatre, and so must be regarded as revenue expenditure Making good the damage to the mosaic floor was merely a repair and therefore a revenue charge.

The replacement of the plain skylight by a stained glass decorative lead light is an improvement and adds something to the theatre asset which was not there before After making allowance for the cost of the original skylight the balance of the expenditure may be legitimately treated as capital expenditure.

Item 4.—During the exhibition of a "silent" battle film, the "effects" boy, from excess of zeal, fell upon the big drum and destroyed it. The drum cost £5. It was decided that such effects would not be required in the future.

The drum formed part of the original musical instrument asset, and, as it has been destroyed, the expenditure upon it should be charged against revenue as a loss.

Interest during Construction.—The above illustration has not been complicated by reference to the question of interest on capital during the construction of the theatre. It has been assumed that the work was executed under a contract, and so the question of interest does not arise. But the question of interest enters into the cost of all construction work. If the construction is in the hands of a contractor, he naturally takes the question of interest into account when preparing his tender. If private individuals or companies are carrying out their own construction work, the principle of adding interest to the capital cost of the undertaking cannot be challenged. The *Companies Act*, 1929 (S. 54), provides for the payment of interest during construction under certain conditions (see p 312)

The illustrations given above in connection with the picture theatre are simple in comparison with the complicated cases

which sometimes arise in practice (particularly where "talkie" apparatus is installed on the deferred payment, or hire purchase, plan), but they may furnish a guide to the student when allocating similar expenditure. By way of further assistance the following broad RULES may be given.—

(*a*) Expenditure incurred in order to acquire, improve, or manufacture assets to be used solely for the purpose of earning income, or of extending, perfecting, or enhancing the revenue-earning capacity of the equipment is *Capital Expenditure*. Thus, actual additions, as apart from replacements, to buildings, machinery or tools, or expenditure which increases the producing capacity of capital assets, or reduces the cost of the output, may be regarded as capital expenditure. If the expenditure serves to maintain but not to increase profits, it should not be capitalised permanently. Generally speaking, capital expenditure is visible, i.e. it is represented by tangible assets.

(*b*) Expenditure incurred solely for working or maintaining a business, or for making good waste in the fixed assets employed, in short, expenditure which simply maintains but does not increase profits is *Revenue Expenditure*. Expenditure of this kind rarely results in visible assets.

(*c*) Expenditure which appears to share the characteristics of both the above classes, e.g. expenditure incurred in replacing an asset by one more efficient and costly, must be treated as Capital Expenditure, only after any capital value remaining on the books in respect of the old asset has been written off.

(*d*) Expenditure which is primarily revenue expenditure may, in some instances, be temporarily capitalised on the ground that the benefit accruing from it extends beyond the year in which it occurs. Such expenditure must be treated upon its merits, and the annual instalments to be written off must be determined by the facts of the case. Illustrations of this kind of expenditure are : preliminary expenses, discount and expenses on debenture issue, abnormally heavy advertising, cost of lease, exceptional repairs or alterations, cost of removal of works, and so on.

(*e*) Finally, it must be borne in mind that when the items which compose any trial balance, or list of balances, have been sorted into the above categories, there still remains the obligation to provide for wear and tear and waste which is incidental to the employment of the assets comprised in the equipment of the undertaking. Waste of this kind cannot be made good by actual expenditure, and must be provided for in the books, in the form of depreciation or reserves, before the actual revenue earned by the undertaking can be ascertained.

GOODWILL.

Much literature upon this interesting subject is available to the ambitious student, but it is possible here only to deal with the subject sufficiently fully to meet the needs of the averge student.

EXAMPLES OF CAPITAL AND REVENUE EXPENDITURE.

CAPITAL.	REVENUE.
Cost of land, buildings and structures (freehold and leasehold) and cost of structural improvements.	The upkeep and maintenance expenses of property set out in the "Capital" column, such as repairs, replacements and renewals of machinery, plant, tools, furniture, etc., stores and raw materials consumed, and the cost of improvements which cannot justifiably be capitalised.
Cost of actual additions to the foregoing which were not in existence before, and therefore do not replace a similar asset.	Rent, ground rent, rates, taxes, royalties, insurance, wages, salaries, and all similar expenses of manufacture, selling, and distribution incurred in earning revenue.
Alterations which actually result in increased producing capacity or reduced cost of working. In such cases, however, due allowance must be made for the book value of any assets scrapped or replaced. It will frequently be advisable to spread expenditure of this kind over a term of years.	Renewal fees of patents or trade marks.
Cost of draining waste land to enable it to be built upon.	Loss on sale of fixed assets. If very heavy these losses may be spread over a term of years.
Cost of sinking shafts or driving tunnels in collieries or mines in order that coal or minerals may be "got."	Interest paid on loans, overdrafts, etc
Cost of "developing" a mine, plantation or other estate.	The book value of assets destroyed or abandoned less the proceeds of any salvage.
Cost of machinery and plant, loose tools, patterns, dies, drawings, patents, trade marks, copyrights, goodwill	Compensation for accidents, etc.
Cost of furniture, fixtures and fittings.	Amortisation of leases. As representing rent paid in advance, the annual instalment of the amount necessary to wipe out the asset account at the close of its life is a revenue charge.
Administration expenses of a new undertaking incurred during the construction of a new plant.	*Illustration.*—Sale of old gas engine (book value less depreciation, £185) for £100, and purchase of new engine for £450. As to £85, representing loss on sale of old engine, this transaction is Revenue. As to £450, representing cost of new engine, it is Capital.
Expenditure upon property or assets in a dilapidated condition in order to render them revenue producing.	
Reconstruction of buildings, machinery or other assets after allowing for the value of the property destroyed or abandoned.	
Actual additions to property of the above classes, either in the form of entirely new property, or in the form of additional parts to existing assets.	
Alterations to existing assets which have the effect of reducing the expense of working them, or increasing their capacity, after due allowance for any portion of the asset which has been scrapped in the operation.	
NOTE.—The present capital value of many of the above assets is subject to proper provision having been made for depreciation, or obsolescence.	NOTE.—Depreciation, or other provision for waste, although it cannot be met by actual expenditure, is nevertheless a necessary charge against revenue.

Definitions.—Many definitions of goodwill are available, but they have no statutory authority and none is quite satisfactory. Indeed it is impossible concisely to define so comprehensive an asset. Probably the oldest legal definition is that of Lord Eldon that "Goodwill is nothing more than the probability that the old customers will resort to the old place" [*Cruttwell* v. *Lye* (1810)]. In *Lindley on Partnership* it is defined as "the benefit arising from connection and reputation." Mr. Underhill, in his book on the *Law of Partnership*, defines goodwill as "the probability of the customers or clientele of the firm resorting to the person or persons who succeed to the business as a going concern." The first definition is too narrow, and rather confines goodwill to a question of locality. In many cases, goodwill embraces much more than this. Reputation is often far more important than locality. Broadly speaking the purchaser of the goodwill of a business acquires the right to represent himself as the successor to the business, and also the right to every advantage that the former proprietor of the undertaking can convey to him—trade name, trade marks, patent rights, copyrights, position, reputation, organisation, current contracts, agreements, leases, and business connection. Obviously, the precise content of the goodwill will vary with the particular business, but some, or all, of the elements mentioned are essential components of goodwill.

Rights of Vendor.—The vendor of a goodwill is debarred from setting up or carrying on another business in such wise as might lead the public to suppose that he is continuing the old business. But he is not debarred from trading again, even in the same line of business. For this reason, it is desirable that the purchaser of a goodwill should protect himself by clauses in the purchase agreement restricting the vendor from competition with him. The restrictions imposed must not be unreasonable, or they may be held to be "contrary to the public interest."

Value.—The inclusion of goodwill in the trial balance of an examination exercise appears to act like an irritant upon some candidates. They proceed to revile the unfortunate item as "fictitious," "worthless," "unrepresented by expenditure," a "paper asset," "a source of weakness" and so forth. Even when not required by the terms of the question, they write down the asset by a transfer to Profit and Loss Account, or they append a note to the Balance Sheet expressed in the terms quoted above. The student is unfortunately encouraged in this attitude by ill-informed writers.

It must be admitted that the epithets beloved of some students are sometimes applicable. Goodwill is certainly an intangible asset, but by no means necessarily fictitious, though always subject to fluctuation, since it is based upon profits. In a large number, probably the majority, of cases, however, goodwill is a very real and valuable asset, although, perhaps, not one which can be readily sold.

Those experienced in liquidations and receiverships will testify how difficult it is to kill a goodwill when once it has been established, even in cases where insolvency has supervened.

The price at which goodwill has been purchased represents the cost of acquiring the facilities for earning profits possessed by the vendor, and the right to stand in his shoes. This being so, there can be no question that the purchaser may legitimately include the cost of his purchase among the assets in his balance sheet. Whether the original cost should be subsequently reduced depends upon circumstances. These are discussed later.

Goodwill has been recognised by the Courts for several centuries as property which may be sold, mortgaged, or otherwise conveyed, and it is suggested that the student is injudicious in his sweeping condemnation of it as a balance sheet asset.

In arriving at the value of goodwill as between the vendor and purchaser, the author made the following remarks in *Bookkeeping and Accounts*, Chapter XIX:—

"The value of the goodwill attached to a given business is obviously dependent upon the nature of the undertaking, and upon the circumstances connected with it. For the purposes of sale the goodwill of a business is usually estimated as being worth a given number of years' purchase of the annual profits which may be expected to be derived from its possession; such future profits are usually estimated upon the basis of the average profits which have accrued during the last few years' trading immediately prior to the date upon which the sale takes place. The average of profits to be employed for the purposes of valuing a "goodwill" should be based upon the results of a sufficient number of years to give a fair estimate of future results, and in arriving at such average any special profits or losses due to extraneous circumstances should be disregarded The average of the previous three to five years' results is usually employed in arriving at the value of goodwill in ordinary commercial undertakings.

"The number of years' purchase of these ascertained 'average' profits to be taken in any given instance is naturally a matter which is subject to great variation according to circumstances. The goodwill of a professional business, in the successful conduct of which the personality of the previous owner is of paramount importance, and which can only be transferred to a new owner with the probability of considerable loss of clientele, may, in a given instance, only be worth from one to three years' purchase of the average profits previously derived from its possession; on the other hand, the goodwill of a trading business showing average profits of a similar amount may be worth a much larger proportionate sum. This difference in value would be due to the less exclusively 'personal' nature of the latter business as compared with the former. In fact, in many commercial undertakings the personal factor is practically non-existent in connection with the goodwill, which may be largely a question of locality or of reputation for the quality of merchandise sold In an ordinary case the goodwill of a professional business may be taken to be worth from one to three years' purchase of the average past profits, and the value of the goodwill of a trading business will ordinarily be worth from two to five years' purchase of similar average past profits.

If a share only of the goodwill is being disposed of, in cases where the previous partners, or some of them, continue to be associated with the undertaking, a greater number of years' purchase of the average profits will in many cases be obtainable by the vendors.

"Again, where the average of the results of past years is based upon a series of descending profits, i.e. where the profits have in the past been steadily on the down grade, the goodwill will obviously be worth less than where exactly the same average is shown by a series of ascending profits, i.e. where the business shows a sequence of profits which are on the up grade, each year showing a better result than its predecessor.

"The personality of the intending purchaser of a goodwill is an important factor in relation to the price to be paid for its possession; the approximate number of years' purchase stated above, viz. one to three years in the case of a professional business and two to five years in the case of a trading business, will usually apply when the intending purchaser is a private trader on his own account. If, on the other hand, the goodwill of a trading business is to be sold to a limited company formed for the special purpose of acquiring it, the purchase price will frequently be considerably more than if it were being disposed of to a sole trader. This enhanced price arises out of the interposition of vendors' or promotors' profits in the case of a company, and is rendered possible by the fact that the shareholder with limited liability in a joint-stock company will usually be content with a smaller rate of interest per cent. per annum upon his money than would be required by a purchaser trading upon his own account with unlimited liability. A joint stock company can usually be more heavily capitalised in a similar business than a private partnership, and yet be in a position to satisfy its shareholders in point of income."

Basis of Valuation.—It is the recognised custom in some trades, more particularly in retail businesses, to base the value of goodwill, for sale purposes, upon the turnover and not upon the net profits. Again, in other trades, the quantity or weight of the articles sold form the basis of value. The purchaser of a goodwill must take into consideration the interest upon the capital he has to expend, including the purchase price of the goodwill, and also any salary he may have to pay to any person whom it may be necessary to appoint to do the work previously done by the vendor. The purchaser can obtain reasonable remuneration from his capital by investing it in gilt-edged securities, without incurring the risks which attach to commerce, and, therefore, when purchasing a goodwill, the purchase price should be based upon the present value of the *increased* income promised by the purchase over and above that which could be obtained from investment in sound securities.

In some cases, a lump sum is paid for a business, "lock, stock and barrel," including the goodwill. In these circumstances it will generally be found that such assets as plant and machinery, stock, etc., have been taken over at prices greater than those which they would realise if sold separately from the goodwill. When possible, such assets should be valued and an amount be determined as the cost price of the goodwill. In the absence of

this analysis of the purchase price, it will be difficult to fix satisfactory depreciation allowances for the wasting assets.

Balance Sheet Value of Goodwill.—This, perhaps, is the aspect which most concerns the student The essential thing for the balance sheet draughtsman to ensure is a clear and separate statement of the asset so that the amount at which it stands in the books, and the method of its valuation, i.e. cost, or cost less amounts written off, are made clear to all who read the balance sheet. In short, the amount of capital which has been sunk in goodwill must be readily ascertainable.

By S. 35 and Fourth Schedule, Part I (9) of the *Companies Act*, 1929, every prospectus, and by S. 40 and Fifth Schedule every statement in lieu of prospectus, must state the amount paid for goodwill if such an asset has been acquired by the company. By S. 124 of the same Act there must be stated under a separate heading in every Balance Sheet of a company, so far as it is not written off, the amount of the goodwill and of any patents and trade marks, if it is shown as a separate item in or is otherwise ascertainable from the books of the company, or from any contract for the sale or purchase of any property to be acquired by the company, or from any documents in the possession of the company relating to stamp duty payable in respect of any such contract or the conveyance of any such property. It will thus be seen that goodwill may be grouped with patents and trade-marks, but not with any other asset. The Balance Sheet must state how the values of the fixed assets have been arrived at; goodwill is a fixed asset for this purpose.

The item goodwill rarely appears in the books or balance sheet of a private firm or limited company, unless it has actually been purchased. The student will realise that there would be no particular object in the present owners of a goodwill attempting to record its value in the books, and, in the author's experience, no record of the asset appears, except in cases where the admission of a new partner, or the death or retirement of an old partner, has rendered it necessary, or in cases where limited companies have been formed to acquire established businesses. There are, however, other circumstances in which the asset goodwill is encountered, as, e.g., in the case of companies who have established a successful business by means of very heavy advertising in the early years of their existence, or where a successful company has revalued the whole of its assets for the purpose of making a capital distribution to its members.

It should be remembered that the amount at which the item goodwill may stand in the books and accounts of an undertaking does not necessarily express its value, but merely represents the price which was paid for it less any sums which may have been written off. A prospective purchaser of goodwill would be very ill advised not to ignore the book value when making his calculations. The value of the goodwill of a business can only be ascertained when it is actually realised. In the case of a limited company, however, the market price of the shares—unless artificially created—indicates to some extent the value placed by the public upon the goodwill.

Goodwill in Partnerships.—This aspect of goodwill has been fully treated in the chapter on Partnership Accounts (Chapter IX). The matter is dealt with in the great majority of partnership agreements. Sometimes the agreement provides for the payment of a certain share of the profits for a limited term of years to the representatives of a deceased partner as consideration for his share of goodwill. Such payments may be treated as though they were actual appropriations of profit to a partner, or they may be debited to a goodwill account, and allowed to remain in the books as an asset, or written off over a period. In some cases the agreement fixes the goodwill of partners at a definite sum, and an insurance policy (joint or several) is taken out to cover the amount. Although the *Partnership Act*, 1890, does not directly provide for the treatment of goodwill upon dissolution, any goodwill there may be is the common property of all the partners, in the absence of any provision in the partnership agreement to the contrary, and the goodwill can only be sold for the benefit of all, in accordance with S. 39 of the Act.

Depreciation.—It has already been stated that some examination candidates, on their own initiative, write depreciation off the asset goodwill, and charge the provision amongst the various other depreciations in the Profit and Loss Account. This should never be done unless *direct instructions* to that effect are given. It is suggested that "fluctuation" is a happier expression than "depreciation" in this connection. There is no analogy between the diminution in value of goodwill and that of other fixed assets. Goodwill is not consumed, nor is it subject to wear and tear, obsolescence, or diminution by efflux of time, in the process of earning profits. The value of goodwill at any period depends greatly on the profits earned, and as profits fluctuate so the value of the goodwill may be said to fluctuate. As in the case of some other classes of fixed assets, the value of which fluctuates from various causes, e.g. freehold land and buildings, so in the case of goodwill, such fluctuations should be ignored. It is sometimes contended that *in any event* goodwill should be eliminated from the books on the ground that all goodwill disappears in course of time.* In the author's opinion that is advice which should not be too hastily accepted. The question is not always so elementary as this view would seem to suggest, but needs careful consideration in the light of all the circumstances. If the profits tend to decrease, and the tendency becomes serious, it will probably be impracticable to make any provision. If, on the contrary, profits are maintained, it is impossible to allege that depreciation has taken place in the goodwill. The very fact that profits are available for the reduction of the asset is in itself excellent evidence that it is alive and valuable. Goodwill is not static; a live goodwill is constantly being renewed in a normal business; it is therefore unnecessary to write it off unless such renewal is in fact not taking place, but, as already stated, in the latter case, it may be impracticable to write it off.

The appropriation of revenue for the purpose of reducing the

* The author is acquainted with a business, scheduled in Domesday Book, and still flourishing!

book value of goodwill has, of course, the effect of creating a secret reserve, and enhancing the financial position of the company, and, from this point of view, the appropriation may be commendable It is a cheap method of obtaining additional working capital for the undertaking, inasmuch as money is retained in the business which otherwise would be distributed as profits or dividends. In the absence of special regulations in the Articles of Association, there would appear to be no legal obligation on a company to reduce the cost price of goodwill (*Wilmer* v. *McNamara*, [1895] 2 Ch 245).

Summary.—To sum up, it may be repeated that goodwill is a fixed asset, and any attempt to state its fluctuating value from time to time in the annual balance sheet is both unnecessary and impracticable. But it may be conceded that in some cases there may be excellent financial reasons for reducing its book value. This, however, is a matter of financial prudence and not of obligation. In any case, students should not, as they frequently do, refer to sums appropriated for this purpose as ordinary charges against profits. In no sense are they charges against current profits; they are *appropriations out of profits* [See also *Stapley* v. *Read Bros.*, the decision in which is dealt with on p. 370.]

Depreciation

Definition.—The word "depreciation" is frequently wrongly used, and, sometimes where its use may be allowed to pass, it is not always a happy term to apply. The student is often bewildered by the divergent opinions to be met with upon the subject, due for the most part to the different meanings given to the term. It may be well, therefore, to say at once that the term is here held to mean the diminution in the financial value of an asset owing to wear and tear, effluxion of time, obsolescence, or similar causes, the suggestion being rather that of gradual deterioration than sudden loss or diminution in value.

The student should clearly understand the difference between depreciation and fluctuation in value. Depreciation is permanent: fluctuation is temporary. The former term is only applicable to assets in which waste is inherent. The latter term applies to the variations which may take place in the market value of assets owing to fluctuations in the cost of materials and labour, the laws of supply and demand, or from other causes. The market value of assets which are not held for sale are of little moment to a going concern. The real point of importance is to ensure the equitable distribution of the original cost of the wasting asset over its working life.

The term depreciation, as employed commercially, applies to the waste, and consequent decrease in financial value, which takes place in assets used for the purpose of earning profits. Such assets are not primarily held for sale, but for use. The measure of the waste, or shrinkage in value, which occurs owing to their use, is called depreciation. This must be provided for, and is therefore a proper charge against revenue. Any fluctuations which may occur from time to time in the market value of such assets can be disregarded, except that, if the fluctuations

persistently tend downwards, the residual "scrap" value taken into account when fixing the depreciation rate may need revision.

Necessity for Depreciation.—There can be no doubt that commercial men frequently deal with the question of depreciation upon unscientific lines, and do not observe that scrupulous care which they exhibit in other directions. In some cases, the amount of the provision made for depreciation is regulated by what can be "afforded" during the period in question. This attitude is, of course, quite unsound. Depreciation has no relation to profits. It is a charge which has been incurred and must be provided for in any event. The object of providing for depreciation is to maintain the trader's capital intact, and this end will not be achieved unless the provision is based upon sound lines.

The whole question is a large, and often a very technical one. The fact of depreciation may be incontestable, but its correct assessment may be very difficult. All that can be reasonably expected from the student, at this stage, is a knowledge of the chief governing principles. It may be well to warn prospective examinees that in this connection, also, failure to comprehend the scope and difficulty of the subject frequently leads candidates to a display of injudicious dogmatism in the examination room.

Speaking broadly and commercially, depreciation represents waste which has taken place during a given period in assets possessed by the trader or company. As a general rule, the waste arises because the depreciating asset has been employed in producing revenue. Clearly in such cases depreciation is a part of the cost of production, and must be charged against the revenue of the period before any true estimate of profit can be determined. Probably the commonest example of the diminution in value incidental to the use of assets is that of machinery and plant used for producing goods for sale.

A simple illustration will convince the student that the waste which takes place in connection with the employment of machinery is a proper charge against profits.

Illustration.—B, a boot manufacturer, purchases a welting machine for £100. At the rate at which the machine is worked, it will be worthless at the end of ten years. In ten years, then, this £100 will have disappeared. It is obvious that the money can only be recovered out of profits derived from the sale of the boots. B has, in fact, paid £100 in advance for work to be done by the machine during its ten years of life. The cost of this work is just as much a charge against trading as wages, the only difference being that it is paid in advance. Clearly, each year of the ten should bear its proportion of the sum thus paid in advance. If such provision is not made the profits shown for the intervening period will not be true profits. They will appear to be larger than they really are. The only question which remains is the amount to be charged against each six or twelve months' trading during which the machine is worked. These divisions of time are, of course, purely arbitrary, and the only matter of importance is that each period should be charged with its due proportion of the original outlay. The sum so charged against revenue is called depreciation. It might be called "proportion of sum paid in advance for machine work expired during the year."

Assessment of Depreciation.—The important point for the student is the correct assessment in money of the depreciation which has taken place in respect of wasting assets during any

accounting period. A little thought should convince him that, at the best, the amount of depreciation arrived at can only be an *estimate*. Failure to recognise this fact frequently impels students to dogmatic insistence that a hard and fast 5 % rate is a universal panacea for depreciation in all and every class of asset, irrespective of its nature and employment, even when there is no real need for the provision of depreciation at all! Such narrow views are not permissible. Indeed, the attempt sometimes made in text-books to give tables of rates suitable to various assets, irrespective of the circumstances in which they are used, is injudicious and would not be made by an accountant of experience. Each case must be judged on its merits. The rates published from time to time, as agreed for Income Tax purposes are, on the whole, lower than would normally be adopted in the accounts, a fact which students often fail to appreciate.

The crux of the whole matter is the true assessment of the waste which has taken place in any given asset during the accounting period. The questions to be asked and answered are: (*a*) *What is the money equivalent of the depreciation which will take place during the life of the asset? and* (*b*) *how is this amount to be fairly distributed over the trading of the period during which the asset is employed?* In many cases, e.g. in connection with machinery, the accountant is largely dependent upon the engineering expert for information. There are, however, some facts which afford a useful guide for the calculation of depreciation rates, viz. (*a*) The original cost of the asset, (*b*) the length of time it will last as at present employed, (*c*) the extent and efficiency of the repairs and renewals carried out, (*d*) its liability to become obsolescent, (*e*) the amount of interest upon the capital sunk in acquiring it, (*f*) the price the asset will fetch at the close of its usefulness to the present owner, (*g*) the use to which the asset is put, e.g. if a machine, does it run night and day, or has it been idle for any appreciable time? *

All these points must be taken into consideration in order to arrive at a suitable depreciation rate. The only *certain* facts are the original cost of the asset and the interest on the capital sunk to acquire it. But the experts will be able to supply answers to such of the above questions as fall to them with reasonable exactitude, with the exception of (*d*), which presents the greatest difficulty and becomes increasingly troublesome. In some trades the risk of obsolescence is small: in others it is considerable. In any case, provision for diminution in value under this head can only be roughly estimated, and frequently it is ignored altogether because of the difficulty in obtaining data upon which to base an estimate. It is undoubtedly wise, where the wasting assets are numerous, to obtain periodically, where practicable, an independent expert valuation so that the book values of wasting assets may be checked. Having obtained answers to the questions stated above, the object now is to determine the percentage rate which will eliminate the asset from the books at the end of its useful life.

* In some cases, e g in the lace trade, machines waste more rapidly when idle than when in employment.

Various Methods.—The various methods, enumerated below, of providing for depreciation are in general use and have already been encountered by the student in his book-keeping text-book,* and need only be briefly reviewed in this place. They are as follows :—

(1) The straight line, or equal instalment, method.
(2) The diminishing balance method.
(3) The annuity method.
(4) The sinking fund method.
(5) The insurance policy method.

1. *The Straight Line Method.*

By this method, the original cost, or the present value, of the asset is divided by the number of years of the "useful life," and the revenue of each year is charged with an equal part of the cost. In other words the basis of the necessary calculation is, original cost less residual value spread in equal instalments over the life of the asset. The advantage of this method is its simplicity, and the fact that, however rough and ready it may be, it entirely eliminates the asset at the close of its life. The chief objection advanced against it is that it ignores the question of interest, and that while each year of the "useful life" bears an equal charge for depreciation, the expenditure upon repairs increases as the asset becomes more and more decrepit, and its earning capacity is reduced, and so the later years bear more than their share of the burden. It is also said to be inconvenient, since, if additions to the asset are made during the period, it is necessary to make new calculations in order that the further capital charge shall be eliminated at the same time as the original outlay. But this cannot be a serious inconvenience, for, by means of a Memorandum Plant Ledger, particulars of all additions can be so recorded that the necessary adjustment of the annual depreciation figure can readily be made.

In the author's opinion much can be said in favour of spreading the cost of wasting assets in equal instalments over the period of their productive life. The system works satisfactorily where the plant is extensive. The charge against profits is the same year by year. It is true that the charge for repairs on any particular machine increases as it ages; but in a large concern, at any rate, this is counterbalanced by the fact that machines of all ages receive the same treatment. Then again, in some cases, the best is not got out of machinery until it has been running some time, and considerable sums are spent in adjustment and "tuning up" in the early years.

This method is not infrequently applied to leases of short duration. As is pointed out later, however, the more correct method to apply to leases of any length is the annuity system.

2. *The Diminishing Balance Method.*

By this method, a fixed percentage is written off the diminishing debit balance of the asset account every year. For this

* The author has dealt with them in *Book-keeping and Accounts*, Chapter IX, and in *Higher Book-keeping and Accounts*, Chapter III.

reason it is sometimes referred to as the Reducing Instalment Method. It will be clear to the student that a much higher rate of depreciation must be employed by this method than by method (1) if the asset is to be eliminated from the books during its working life.

It is claimed that this method has the advantage of averaging the burden borne by revenue, inasmuch as in the early years of the life of the asset when the depreciation charge is heavy, the repairs are correspondingly light, and *vice versâ*. It also avoids the necessity for fresh calculations every time additions are made to the asset account. For these reasons, the method is popular with commercial men and is commonly adopted for depreciating machinery and plant. But this method also ignores the question of interest, and the original cost of the asset is lost sight of. Further, owing to the high rate of depreciation which must be fixed to eliminate the asset at the close of its life, the early years, in some cases, are subject to an unduly heavy burden compared with later years. If the percentage is scientifically ascertained, this method will, like method (1), reduce the asset to its scrap value at the end of its life. Unfortunately, it is usually found that the percentage employed is inadequate, and a residual value above its scrap value is left on the books after the usefulness of the asset has disappeared. There is a tendency to fix the rate under the diminishing balance method upon the same basis as that which would eliminate the asset under the straight line method. This, of course, is a fallacy.

Illustration.—If a machine, with a useful life of five years, cost £1,000, and is depreciated upon the straight line method, one-fifth or 20 % of the original cost (£200) will be written off annually, and the asset account will be closed at the end of the fifth year. But if the same machine is depreciated upon the diminishing balance method at 20 %, the asset account will still show a balance of £327 13s. 7d. at the close of the fifth year.

3. *The Annuity Method.*

By this method the amount written off each year is calculated so as to eliminate, at the end of its useful life, the original cost of the asset *plus interest on the capital sunk*. Each annual instalment is ascertained from tables and interest.

Interest at the agreed rate on the capital sunk in the asset is debited to the Asset Account and credited to revenue every year. The theory is that the capital sunk in the asset earns, during each trading period, the amount of interest which is credited to revenue. The interest credited to revenue will thus gradually diminish as the asset account is reduced by each instalment of the depreciation charge. As this latter charge is a constant amount, it is clear that revenue will bear a gradually increasing burden. This is probably the most scientific system, particularly in the case of leases, but it is not very commonly met with in practice. An objection frequently raised against it is that in the early years the book value of the asset exceeds the actual value, since a heavy fall in the market value takes place immediately the asset becomes "second-hand" Again, where frequent additions are made to the asset, there is the inconvenience of continually revising the

calculations, and, in practice, this system is seldom applied to such assets as machinery and plant, and the like.

It may be of interest to recall that, when the Post Office authorities acquired the undertaking of the National Telephone Company, the Arbitration Commissioners declined to recognise this method as suitable in the case of the plant as between buyer and seller, and decided in favour of the straight line method. It must be admitted that, as compared with a lease, there is the difference that the date upon which the lease expires is *known*, whereas the duration of the useful life of plant is *estimated* only. There is also the question of repairs and renewals, and the income which will be earned by the asset. These are unknown quantities at the outset. Perhaps, for these speculative reasons, the annuity method does not commend itself more widely to commercial men.

4. *Sinking Fund Method.*

This method (also referred to as "Depreciation," "Redemption" or "Amortisation" Fund), is similar to the annuity method, and also takes interest into account. An agreed amount is set aside each year and invested, which amount, accumulated at compound interest, will produce a sum equal to the original cost of the asset at the end of its life, and so provide the cash wherewith to replace the asset. The asset is left on the books at its original cost until the end of its useful life, when the accumulated profits are used to extinguish it. This method is undoubtedly to be preferred where it is essential that working capital should be left intact, and the funds necessary to replace the wasting asset should be available in ready cash. At first sight, it may appear to the student that the charge against revenue is less than under the former system. It must be remembered, however, that the undertaking is deprived of the power of earning profits upon the sums withdrawn and invested in the Sinking Fund. The question of Sinking Funds is separately dealt with at pp. 81–89.

5. *The Insurance Policy Method.*

By this method, which is another form of the Sinking Fund Method, an endowment policy is taken out maturing at the date when the useful life of the asset is reached, for an amount which will replace the capital sunk in the purchase of the asset. These policies are dealt with at pp. 89–90.

On reviewing the above methods, the student will realise that, granted that they are properly employed, the only vital difference between them is that methods (1) and (2) ignore the question of interest while the other methods take it into account. The essential end to achieve by all the methods is the reduction of the asset to its residual value by the time that it has lost its usefulness.

Re-valuation.—It has already been stated that, in some cases, periodical re-valuation of wasting assets is desirable to ascertain the waste or depreciation. Any diminution in value disclosed by

the re-valuation is treated as depreciation. Obvious objections to this method are the cost and the labour involved, which in some cases would be prohibitive. Another objection is that in unscrupulous hands the method might well become dangerous. This procedure is, however, almost essential in the case of some assets—such, for instance, as loose tools, horses, cattle, sacks, cases, casks, bottles and the like. Instances will probably suggest themselves to the student where the application of this method of ascertaining depreciation would be impracticable owing to fluctuations in the market value of the assets involved. Such fluctuations have no relation to the actual depreciation which has taken place in assets owned by a going concern, and used for the sole purpose of producing revenue. As an occasional check upon book values, however, there can be no doubt that periodical valuations are helpful.

It may be advantageous to consider briefly a few typical assets from the point of view of provision for depreciation upon them.

Freehold Property.—It is impossible to formulate any useful rule for this kind of property. The land itself may fluctuate in market value, but this cannot be dealt with as depreciation in the accounts of a going concern, since its value depends on the facilities it affords. It is not usual to deal with any shrinkage in value in this connection, unless the actual depreciation which has occurred is disclosed by realisation of the property. It is very difficult to convince commercial men that any provision for depreciation is necessary in respect of freehold buildings, if the property is kept in proper repair out of revenue. The practical impossibility of estimating the useful life of any building adds to the difficulty. Nevertheless, no building lasts for ever, and in these progressive days, all buildings are liable to become obsolete In particular circumstances it may be prudent to recognise the necessity of reducing this asset account. Considering the long life of this asset, any provision that is made must involve the question of interest. Most probably, provision would best be made by accumulating a fund for re-building. An insurance policy is convenient in this connection. A difficulty arises in estimating the dimensions of the fund required, because of the wide fluctuations in the cost of building construction within recent years The rate of depreciation assumed usually varies from 1 to 3 % of the original cost, but the necessities of the particular case must suggest the actual measure of the provision. All repairs must, of course, be charged to revenue.

Leasehold Property.—The date when leasehold property will pass to the lessor is definitely known. It is clear therefore that the original cost of the property, together with any subsequent expenditure upon it, must be written off over the term of the lease. Probably the best way to do this is by the annuity method, unless it is essential to accumulate an outside fund for the purchase of another lease at the end of the period, in which case the insurance policy method is advantageous. If the lease

is very short the "straight line" method is adequate. Where the expenditure for leaseholds includes a premium paid for the lease, it is practically a payment of rent in advance, and it is common for the amount to be spread over the term in equal instalments. In such cases, the term "depreciation" is not appropriate. Under the terms of some leases, the claim for *dilapidations* may involve a heavy liability at the end of the lease, and then expert estimate of the liability should be obtained, and a fund—preferably invested outside the business—should be raised to meet the liability. Where dilapidations have to be provided for, it is a common practice, when calculating the amount of the annual instalments, to deduct a few years from the life of the lease, or to add the estimated amount of the dilapidations to the original outlay, and so provide an additional fund with which to meet the charge. Where the lease is long, and the buildings are unlikely to last out the term of the lease, the provision for depreciation must of course be based upon the life of the asset, and not on the term of the lease.

Ships.—No general rules can be suggested for ships. It may be of interest, however, to mention that, for income tax purposes, the following rates are allowed:—

Tank Steamers, 5 % on prime cost.
Passenger Steamers, 4 % on prime cost.
Cargo Steamers, 4 % on prime cost.
Sailing Vessels, 3 % on prime cost.

It must not be assumed that the above rates are accepted by shipowners as adequate. In some cases, at any rate, they do not cover the loss on break-up. It may be noted that engine and boiler renewals and structural alterations may be added to the prime cost. Refrigerating machinery is allowed at 6½ %. Single-ship companies rarely make any provision for depreciation.

Copyrights.—Provision for depreciation in respect of copyrights presents considerable difficulties. By the *Copyright Act*, 1911, the life of a copyright extends for fifty years after the life of the author, but it is manifestly impossible to estimate the life of any copyright literary, dramatic, musical or artistic work. It may last indefinitely, or quickly wane. The only wise precaution to adopt when capital has been sunk in the purchase of copyrights is to make periodical re-valuations and to eliminate the asset within the period suggested by a soundly cautious judgment upon the facts.

Patents.—The legal life of a patent is sixteen years, provided the necessary fees are duly paid. Theoretically, therefore, owing to effluxion of time, the book value of a patent should be eliminated within this period. As a matter of fact, however, patents are frequently kept alive by the registration of supplementary specifications covering material improvements. Practical experience shows, moreover, that, in many cases, the mere ownership of the specification of the patent in itself forms only a small part of the value attached to the asset. Its main value may

PLANT LEDGER.

Particulars of Machine · *Automatic Drill.*
Erected in : *Machine Shop.*

Date Purchased : *December 31, 19...*
Expected Life : *Ten Years.*

Makers : *Hard, Steel & Co.*
Residual Value Estimated at : *£200.*

Date.	Particulars.	Folio.	Original Cost and Additions	Repairs.	Renewals	19...		19...		19 ..	
						Depreciation written off	Book Value.	Depreciation written off.	Book Value	Depreciation written off.	Book Value.
			£ s. d	£ s d.	£ s d	£ s. d.	£ s. d	£ s. d.	£ s d	£ s d.	£ s. d
19 . Dec. 31	*Cost of Machine purchased from Porter & Co at this date*		*5,000 0 0*			*480 0 0*	*4,520 0 0*				
19 . Dec 31	*Additions during the year*		*100 0 0*								

NOTE.—The Repairs column is employed as a record of the expenses incurred in connection with each machine. As this expense is charged to Revenue it does not, of course, form part of the book value.

reside in the experience derived from the actual employment of the patent, and in particular from the failures connected with its early application. The patent may have become so popular that practically a monopoly has resulted, in which event the book value of the patent is virtually represented by the goodwill which has accrued. On the other hand, it may have proved impracticable or unpopular, and then it is probably worthless. In any case, the cost of the patent, either patent fees and costs of experiments, or capital sunk in the purchase price, should be charged to revenue over a period, the length of which can only be determined by judgment upon the facts. Whether any of the expenditure may be retained in the balance sheet as an asset after the expiration of the patent is also a question for determination in the light of the facts. It is futile to dogmatise upon the matter. The "straight line" method is probably the most suitable for the elimination of expenditure upon patents.

Patent renewal fees should, in all cases, be charged to revenue.

Furniture, Fixtures, and Fittings.—As a general rule these should be generously depreciated. Fittings, particularly, if removal or alteration becomes necessary, are practically firewood only. It must also be remembered that some of the fixtures will probably be "landlord's fixtures" and cannot therefore be removed.

The "diminishing balance" method is usually employed in this connection, all repairs being charged to revenue.

Machinery and Plant.—In cases where the plant is at all extensive or varied in its nature, it is a wise plan to keep a Plant Ledger (see p 75). This is a "memorandum" Ledger only, and contains particulars of the original cost, the periodical depreciation written off, and the general history of each individual machine. Where machinery is periodically scrapped, or rapidly becomes obsolete, the information contained in such a Ledger is often very valuable, particularly for income tax purposes. The book should also contain memoranda of the probable working life of each machine, and an estimate of its final scrap value. One of the lessons to be gathered from such a record is the unwisdom of including plant of all descriptions in a general Machinery and Plant Account and subjecting it to a common rate of depreciation. Such an omnibus account will cover not only the heavy running machinery, but boilers, gearing, shafting, and other appurtenances, the lives of which vary greatly in duration. Boilers, for instance, depreciate, as a general rule, more quickly than the other items enumerated, particularly in cases where unsuitable water must be consumed. Shafting, on the other hand, will often outlast the running machinery. It is not suggested that each piece of machinery should be separately treated for depreciation purposes, because this would often be impracticable. It is, however, contended that machinery should be classified into groups according to its vitality, and that depreciation upon the aggregate value of each group should be provided at suitable rates.

The classification should be the work of experts, but a general division might be as follows :—

1. Motive power (engines, boilers, water softening plant).
2. Shafting.
3. Running plant and general machinery (circular saws, lathes, planers, etc.).
4. Special machines suitable to particular trades only.

As remarked above, boilers vary greatly in length of life according to the kind of water used and the pressure obtained. Shafting, in many cases, enjoys considerable life. The life of running plant varies greatly in different trades, and depends upon the rate of running, and the efficiency of the repairs. As a rule, special machines are more liable to become obsolescent than machines of a general type. As with other assets, market fluctuations in the price of machinery must be ignored. The measure of the value of plant is its power of productiveness and its suitability to its owners.

Theoretically, perhaps, the "straight line" method of depreciation is the most suitable for plant, but the author's experience is that the diminishing balance method is the most popular with manufacturers, and, provided that the value of the asset is reduced to its estimated scrap value at the close of its working life, the latter method is quite adequate In view of the comparatively brief life of most machinery, the question of interest is not of the same importance as it is in the case of longer lived classes of fixed assets. Plant and machinery are constantly renewed, and the sinking fund method is seldom applicable to them. But where costly single machines, e.g. monotype setting machines, must be replaced at known intervals, it is wise to accumulate a fund outside the business.

In a few cases, full details of the machinery and plant and its depreciation from the time of its original purchase are given in the balance sheet as follows :—

	£	£	£
PLANT AND MACHINERY : Original Cost		8,000	
Add Total additions to date of last Balance Sheet at cost	2,000		
Additions during the year ended December 31, 19.. at cost	400		
		2,400	
		10,400	
Less Total depreciation to date of last Balance Sheet	1,960		
Depreciation written off for the year to December 31, 19..	850		
		2,810	
			7,590

When this course is pursued, separate accounts are kept in the Ledger for the asset and the depreciation in order that the facts as set out above may be readily ascertained.

Vans and Carts.—These should be treated upon the same lines as plant and machinery. The life of motor vans is generally shorter than in the case of horse-hauled vehicles. Their initial

cost is of course much heavier, and for this reason the question of depreciation of motor vehicles needs careful consideration.

Loose Tools.—In the majority of businesses the only reliable method of dealing with assets of this description is to take stock and re-value them periodically. Many firms make some, if not all, of their loose tools, and often the tools are of very transient value. Loose tools are often lost, or "borrowed."

Trade Marks.—This asset can only be treated upon its merits and should be subjected to periodical survey or valuation, otherwise discarded trade marks are apt to be kept upon the books.

Patterns, Drawings, Dies, and Moulds.—It is particularly necessary that a periodical re-valuation of this kind of asset should be made. In some cases they are so intimately merged in the goodwill that separation is difficult. Obsolete patterns, particularly if constructed of wood, are practically valueless. The author had recent experience of patterns, long since abandoned, which stood on the books at £2,750, and which, on being sold, realised £5 as firewood! But every manufacturing business must employ assets of this kind, and in some cases it would be heroic treatment to value them at the mere price of the materials used for their construction. Moulds, dies, and patterns may, if still alive and useful, be treated as good assets at their actual cost less reasonable depreciation. Patterns constructed for a specific job or contract should be valued at their intrinsic worth only, and the difference charged to the contract in question. Fixed percentages written off ledger accounts are nearly always misleading in the case of assets of this description. Many firms charge all expenditure in connection with patterns direct to revenue. Where this is done a secret reserve is created to the extent of the value attaching to the patterns.

Horses, Harness, etc.—The depreciation charge in respect of this asset can only be satisfactorily ascertained by means of periodical valuations.

Goodwill.—This matter has been separately dealt with at pp. 60-7.

Hire Purchase.—Assets purchased under hire purchase agreements must of course be depreciated upon their original cash value, and not upon the instalments paid at any given date. One method is to write off the cash value in equal annual or other instalments: another method is to periodically write off a percentage from the diminishing original cash value of the asset. Sometimes the hire-seller undertakes to keep the asset in good repair throughout the hire period. In such cases, the "straight line" method of depreciation can be adopted.

Exhaustion of Mineral and other Subsoil Products.—Obviously, land which is being denuded of its minerals gradually decreases in value. In this connection, also, depreciation is not an apt word to apply to waste of the kind. Such assets do not depreciate owing to wear and tear, but through being operated upon or worked. The mine, quarry, or other property contains a certain quantity of the material to be "got." Clearly, each year's winnings diminishes the available stock, and this needs

recognition in the accounts. The capital sum subject to waste may consist of several elements, e.g. cost of lease, cost of sinking shafts, buildings, equipment—in fact all the costs of development.

The provision made should be based upon (*a*) the total contents of the mine, (*b*) the quantity of the mineral, or other product, extracted, and (*c*) the residual value of the land. The most satisfactory basis for provision for waste in this connection is the actual output of each period. The total contents of the mine gives the amount per ton, and the Profit and Loss Account is charged with this price per ton upon the tonnage output of the year. The total content can generally be obtained as regards collieries and quarries, but in other cases, e.g. gold mines and oil fields, it is generally impossible to get a reliable estimate, and then the proprietors of the property must understand that any profits they draw include a return of capital also. Incidentally, they should remember that they are also paying income tax upon such part of each dividend as may represent a return of capital.

In some circumstances provision for the diminution in the value of wasting assets presents so many difficulties, that a reserve account is raised, to which round sums are periodically transferred, in order to meet wastage.

Restoration of Land.—Collieries, blast furnaces, and similar undertakings, are sometimes under obligation to restore the land leased to its original conditions upon the termination of the lease. This may involve the removal of all buildings, and also of the accumulated slag, refuse, or other materials incidental to such industries. Sometimes an estimate is made of the liability, and the amount is added to the capital sum, for the wastage of which a fund is raised as described in the preceding paragraph.

Legal Necessity to Provide for Depreciation.—This aspect of the subject is discussed at pp. 353–362.

Income Tax and Depreciation.—The Inland Revenue authorities recognise wastage in the value of plant and machinery under the designation of "Wear and Tear" The fact that the wear and tear allowance conceded by the income tax authorities is very generally less than the depreciation charged in the tax-payer's accounts often perplexes the student. Depreciation includes wear and tear, of course, but it covers much more. The practice of the Commissioners is to make an allowance, usually inadequate, for wastage which arises from use and to treat all other shrinkages in value as a "loss of capital." The Commissioners having jurisdiction in the matter are authorised to use their discretion in making allowances for obsolete machinery (see Chapter on Income Tax).

Investments.—Investments cannot be said to depreciate in value in the sense that wastage has occurred from employment or other cause, but they may fluctuate in value. Unless the fall in value appears to be permanent, fluctuations may be ignored. The market value of the investments should, however, be stated on the face of the balance sheet. Depreciations, when permanent, are capital losses, and must be made good out of profits.

In recent years, the practice has arisen of establishing special reserve funds to meet actual or prospective losses in this direction, and this, probably, is the best method of meeting them, although in cases where a permanent fall in value has taken place, the specific asset account should be written down to the new valuation Investments representing a reserve fund may be maintained at cost unless permanent depreciation has occurred, in which event both the reserve fund and the investment accounts should be suitably adjusted. Where securities redeemable at par—or other fixed sum—at given dates are purchased at prices in excess of their redemption values, such excess needs, in practice, to be written off out of revenue over the life of the investment. For example, if a 6 % stock repayable at par in 1956 is purchased at, say £105, the £5 must be written off over the intervening period.

Repairs.—This question is intimately connected with depreciation. In dealing above with the various methods of providing for depreciation it has been assumed that all repairs and small replacements are charged direct to revenue. In dealing with an item of repairs in the trial balance of an examination question, the candidate should always debit this expense against revenue *in addition* to the provision he is instructed to make for depreciation. As already stated, reserves are sometimes made for repairs, in cases where repairs fluctuate considerably in incidence and amount.

Stock-in-Trade.—Properly speaking, this is not a working asset subject to depreciation in the ordinary sense of the term. It is, however, submitted to valuation at the close of each fiscal period. The quantity of stock held needs careful enumeration and the cost precise calculation. If market values are lower than cost, they should be taken as the basis of valuation, unless the fall in value is obviously temporary, and then it can be ignored. Stock should be carefully scrutinised in order that due allowance may be made for deterioration, damage, obsolescence, or other defects which reduce its value.

Work in Progress.—This is another current asset the value of which is determined by actual valuation. Undoubtedly, the sound policy is to value work in progress at cost price to date. It must, however, be conceded that, in some cases, this would result in hardship, e.g. in the case of non-cumulative preference shareholders, if some measure of profit on long-pending contracts is not taken into account. Where profit on uncompleted contracts is brought in, the profit must be estimated on a strictly conservative basis, so many are the contingencies attaching to long-period contracts

Appreciation.—This matter presents great difficulty. The wise and conservative view is to ignore all questions of estimated appreciations in the value of capital assets until they have actually been realised. Where undoubted and permanent appreciation has occurred, owing to "unearned increment" or other causes, the interests of the present and future proprietors of the concern may demand that the surplus value should be equitably

adjusted. All that can be said is that each case must be adjudicated upon its merits with due regard to the legal rights of the parties interested, and to the financial needs of the undertaking.

Sinking Funds.

In its etymological meaning, a sinking fund is a fund or capital devoted to the gradual sinking or reduction, and extinction of a debt. The term was first used to describe moneys set aside by the Treasury for the reduction of the National Debt. But it is now applied to quite a wide range of objects, and not always correctly applied. A sinking fund may be defined as a fund built up of equal yearly (or other periodical) instalments which, accumulated at compound interest, will provide the capital sum required at the time desired. The capital sum may be wanted to replace an asset or to redeem a liability, and the sinking fund method of providing for it avoids the risk of grave financial stress that might arise if the sum were suddenly withdrawn from the working capital of the business.

The terms *Amortisation Fund*, *Depreciation Fund*, and *Redemption Fund* are sometimes used as being synonymous with the term "Sinking Fund." But it would, perhaps, be a convenience if the last mentioned were confined to cases where the fund is accumulated to meet a future liability, and the term "Depreciation Fund" to cases where the fund is required to replace a wasting asset.

Sinking funds are commonly, but of course not exclusively, employed for the redemption of a debenture issue. A company may issue debentures repayable, say, twenty years from the date of issue, under contract that such a yearly (or other periodical) instalment shall be set aside and accumulated at compound interest as will suffice to provide a fund to pay off the debentures at maturity. In most cases the trust deed provides that the trustees for the debenture holders shall themselves control the fund.

Usually, the instalments to the fund are made yearly, and are invested in securities yielding as high a rate of interest as is consistent with safety. In a minority of cases, a single lump sum is set aside at the outset and left to accumulate. In either case, all interest received is immediately re-invested.

How Sinking Funds are Created.—In most cases where it is desired to establish a sinking fund, the periodical contributions can only be provided *out of current realised profits*. When, e.g. a trading company borrows money upon debentures, the object of the issue is usually to acquire fixed capital assets such as buildings, plant or equipment, or else to augment free trading assets, such as stock or book debts, and experience shows that when the proceeds of the issue are thus utilised, they usually remain locked-up in these channels. It follows that the periodical instalments to be set aside for the service of the sinking fund must be met out of current earnings.

When a portion of the available bank balance is withdrawn

and invested, the only alteration is a change in the type of asset held. The balance at the credit of the Profit and Loss Account is undiminished by the transaction. But, although the undertaking has merely transferred an asset from one pocket to another, so to speak, it is deprived of the power to pay away that part of the profits as dividends to its shareholders. For this reason, it is usual, upon the occasion of each periodical investment, to appropriate a like amount from the credit balance of the Profit and Loss Account, and to transfer it to the credit of a special reserve account called a *Sinking Fund Account.* At any given time this account represents the total of the profits so immobilised and any interest which may have been earned thereon. If this procedure is not adopted, it will be obvious that we shall have the anomaly of a growing balance derived from the Profit and Loss Account, carried forward from year to year, but which is not available for distribution as dividend.

All interest derived from the investments constituting the sinking fund is credited direct to the Sinking Fund Account, and is suitably reinvested. The entries representing the reinvestment of interest are merely the usual credits in the Cash Book for the cost price of the investments compensated by the corresponding debits to the investment accounts kept for the additional securities purchased.

Calculations of Periodical Instalments.—The amount which must be contributed periodically from current resources to the sinking fund depends upon: (*a*) the capital sum required to be accumulated, (*b*) the period which will elapse before the fund is to be used, and (*c*) the rate of compound interest expected to be derived from the investment of the instalments and the interest earned. Given these data, the amount of the annual contribution can be got from any standard book of tables.

Illustration.—A limited company made an issue of £75,000 Debentures, dated December 31, 1925, and maturing December 31, 1955. It expects to obtain 4% interest upon its investments. What amount must be set aside and invested annually at 4% per annum in order to produce £75,000 on December 31, 1955? The annual amount required to accumulate a fund of £1 on those conditions is, as shown by the tables, £0·017830. The answer is therefore £75,000 × 0·017830 = £1,337 5s. per annum.

Usual Objects of Sinking Funds.—The objects for which sinking funds are most commonly employed are as follows:—

(*a*) Redemption of loans, bonds, or debentures.

(*b*) Replacement of capital sunk in the purchase of leases.

(*c*) To provide for the renewal of a current lease upon its expiration, or for dilapidations accruing under a lease.

(*d*) To provide for the replacement of buildings, factories, plant and equipment, or to replace the capital cost of patent or mining rights, and other fixed assets of a wasting nature.

(*e*) Sinking funds are also sometimes established to provide for the loss that will ensue on redemption of terminable securities purchased at a premium. Thus, if £15,000 Arcadia Gold Bonds

repayable in ten years at par are purchased for £15,563 including expenses, the loss on redemption will amount to £563. Companies holding such investments usually anticipate the deficiency by creating a sinking fund, and in determining its dimensions take into account such other securities they may hold as will show a gain on redemption. An instance of a sinking fund established for this purpose is afforded in the Balance Sheet of the Prudential Assurance Company, Ltd. (see p. 867).

As the student is aware, the general decline in the book value of wasting assets is usually provided for by annual transfers to Profit and Loss Account representing the estimated depreciation for the period. Theoretically, this process should eliminate the asset from the books at the end of its usual life. This method does not, however, furnish any funds wherewith to replace the asset. Where there is need for replacement the sinking fund proves invaluable, as it ensures the availability of the required sum *in cash* at the desired date.

Investment of Sinking Funds.—When dealing with the investment of sinking fund contributions and interest, the possible appreciation or depreciation of the securities should not be overlooked. A fund, invested wholly in stock exchange securities, may in the end produce less or more than the capital sum desired. This is particularly the case if the securities selected are not definitely repayable at par at a stated date. Generally speaking, irredeemable securities should not be selected as investments for long-term sinking funds, if current rates of interest are low: the reverse may perhaps be the case when current rates of interest are high. Because Stock Exchange securities are so liable to fluctuate in value, a policy known as a *Sinking Fund Policy* is often taken out with an insurance company in lieu of investing the fund in securities (see p. 89).

The following example illustrates the working of a sinking fund created to redeem a liability. The contributions are assumed to have been placed on fixed deposit account with a Colonial bank.

Illustration.—The Eastern Trading Agency, Ltd., issued £10,000 5% Debentures at par on January 1, 1931, the bonds being repayable at par on January 1, 1936. By the terms of the debenture issue, the Agency undertook to create a sinking fund to redeem the bonds at maturity, the fund to be invested in the joint names of two of the Company's directors and two of the debenture holders' trustees. The exact amount of the fund, and the mode of investment, was left to the discretion of the debenture trustees.

The Company, in conjunction with the trustees, arranged to place the annual instalment on fixed deposit at 4 % with the Company's bankers, the London and Calcutta Bank, thus obviating any possibility of loss through depreciation. The annual contribution was fixed at £1,846 5s. 5d. Annual contributions to the fund were made regularly from December 31, 1931, to December 31, 1935, and the debentures were repaid at maturity, the profit accumulations in the fund being transferred to Reserve Account.

LEDGER.

THE LONDON AND CALCUTTA BANK (SINKING FUND ACCOUNT.)

Fixed Deposit of 4% per annum in the names of two Directors and two Debenture Trustees.

DR. CR.

			£	s.	d.				£	s.	d.
1931. Dec. 31	To Cash	C B	1,846	5	5	1932. Dec 31	By Balance ..	√	3,766	7	10
1932 Dec. 31	„ One year's interest at 4 %	J.	73	17	0						
„ 31	„ Cash	C.B.	1,846	5	5						
		£	3,766	7	10			£	3,766	7	10
1932 Dec 31	To Balance ..	√	3,766	7	10	1933. Dec. 31	By Balance ..	√	5,763	0	4
1933 Dec. 31	„ One year's interest at 4 %	J.	150	13	1						
„ 31	„ Cash ..	C.B	1,846	5	5						
		£	5,763	0	4			£	5,763	0	4
1933. Dec 31	To Balance ..	√	5,763	0	4	1934. Dec 31	By Balance ..	√	7,840	2	5
1934. Dec 31	„ One year's interest at 4 %	J.	230	10	8						
„ 31	„ Cash ..	C B	1,846	5	5						
		£	7,840	2	5			£	7,840	2	5
1934. Dec 31	To Balance ..	√	7,840	2	5	1935. Dec. 31	By Balance ..	√	10,000	0	0
1935. Dec. 31	„ One year's interest at 4 %	J.	313	12	2						
„ 31	„ Cash* ..	C B.	1,846	5	3						
		£	10,000	0	0			£	10,000	0	0
1935. Dec 31	To Balance ..	√	10,000	0	0	1936. Jan 1	By Transfer to Current Account ..	C.B.	10,000	0	0

* Usually in practice the last instalment of cash would not be transferred to the deposit account, since it would be retransferred the next day. It has been transferred above in order to emphasise the principles involved.

5 % DEBENTURES ACCOUNT.

Repayable at par, January 1. 1921.

			£	s.	d.				£	s.	d.
1936. Jan. 1	To Cash, debentures repaid	C.B.	10,000	0	0	1931. Jan. 1	By Cash, £10,000 Debentures issued at par	C B	10,000	0	0

SINKING FUND ACCOUNT.

For redemption of £10,000 5 % Debentures due January 1, 1936 (on fixed deposit with the London and Calcutta Bank at 4 % per annum).

Dr. **Cr.**

			£	s	d.				£	s	d.
1936. Jan. 1	To Transfer to Reserve Account, being total of profits withheld from distribution under accumulation of this Fund (Debentures having been repaid at this date.)	J.	10,000	0	0	1931. Dec. 31	By Transfer from Profit and Loss Account*	J.	1,846	5	5
						1932 Dec 31	,, Deposit Account, one year's interest ..	J.	73	17	0
						,, 31	,, Transfer from Profit and Loss Account	J.	1,846	5	5
						1933 Dec 31	,, Deposit Account, one year's interest .	J.	150	13	1
						,, 31	,, Transfer from Profit and Loss Account .	J.	1,846	5	5
						1934 Dec 31	,, Deposit Account, one year's interest .	J.	230	10	8
						,, 31	,, Transfer from Profit and Loss Account ..	J.	1,846	5	5
						1935. Dec. 31	,, Deposit Account, one year's interest	J	313	12	2
						,, 31	,, Transfer from Profit and Loss Account ..	J	1,846	5	5
		£	10,000	0	0			£	10,000	0	0

* This item would appear in the Appropriation Section, the transaction being an appropriation of profits, and not a charge against them.

RESERVE ACCOUNT.

			£	s	d.				£	s	d.
						1936. Jan. 1	By Balance of Sinking Fund Account transferred to this account upon repayment of debentures ..	J.	10,000	0	0

JOURNAL.

			£	s.	d	£	s.	d
	Profit and Loss Account .. .. Dr.		1,846	5	5			
	To Sinking Fund Account					1,846	5	5
	Being annual instalment for service of Sinking Fund. (This entry would appear yearly during the life of the fund.)							
1932 Dec. 31	London and Calcutta Bank (Sinking Fund Deposit Account) .. .. Dr.		73	17	0			
	To Sinking Fund Account					73	17	0
	Being agreed interest at 4 % for year. (A similar entry would appear each year to record the interest to date.)							

CASH BOOK.

			£	s	d.				£	s	d.
						1931 Dec 31	By Transfer to Fixed Deposit (Sinking Fund instalment)		1,846	5	5
						1932. Dec. 31	" Transfer to Fixed Deposit (Sinking Fund instalment)		1,846	5	5
						1933. Dec 31	" Transfer to Fixed Deposit (Sinking Fund instalment)		1,846	5	5
						1934. Dec. 31	" Transfer to Fixed Deposit (Sinking Fund instalment)		1,846	5	5
						1935. Dec. 31	" Transfer to Fixed Deposit (Sinking Fund instalment)		1,846	5	5
1936. Jan. 1	To Transfer from Fixed Deposit Account (Accumulated Sinking Fund instalments and interest)		10,000	0	0	1936. Jan. 1	" Debentures Account, Debentures repaid ..		10,000	0	0

Redemption of Liability; Replacement of Asset.

The student should carefully note an important difference between:—

(1) A sinking fund established to redeem a liability; and
(2) A fund created to replace an asset.

Redemption of a Liability.—In this case, profits are withheld from distribution, and are *appropriated* for the accumulation of a fund wherewith to repay the liability. It is clear that prudent provision for a debt which will eventually mature is not a charge against profits. It is an allocation of funds for the extinction of a liability—nothing more. It is equally clear that the profits available for appropriation are the only source whence the moneys required for the reserve can be obtained. Hence, the appearance of the annual sinking fund instalment in the appropriation section of the Profit and Loss Account. In some debenture trust deeds a stipulation is made that the "service of the sinking fund shall be provided for out of the profits of each year." Strictly speaking, of course, it is impossible to carry out such a provision. But the *intention* is satisfied by the appropriation of profits for the creation of a sinking fund, separately investing the fund, and, in due course, utilising the moneys so accumulated to redeem the liability.

Replacement of an Asset.—In this case the instalments for the service of the fund represent the wastage of an asset and are therefore a proper charge against profits. The undertaking is

using up the asset in producing its goods or earning its profits. The book value of the asset is not reduced by annual transfers for depreciation in the ordinary way. It stands at its initial cost Eventually the old asset is replaced entirely at the close of its useful life by a new asset, and the original cost of the old asset is eliminated by the transfer of the Sinking Fund when complete.

Illustration (Redemption of a Liability) —Dixons, Ltd , issued £15,000 5 % Debentures on December 31, 19.., repayable at par ten years later. By the terms of issue, a sinking fund had to be created. On December 31, ten years later, the Company's Balance Sheet was as follows:—

DIXONS, LIMITED.

BALANCE SHEET, DECEMBER 31, 19...

	£	s	d		£	s	d.
5 % Debentures . ..	15,000	0	0	Investments	15,000	0	0
Sinking Fund Account ..	15,000	0	0				

The subsequent transactions appear as follows:—

CASH BOOK.

	£	s.	d.		£	s	d.
To Proceeds Sale of Investments . ..	15,000	0	0	By Repayment of Debentures	15,000	0	0

LEDGER.

5 % DEBENTURES.

	£	s	d.		£	s	d
To Cash, Repayment of Debentures	15,000	0	0	By Balance brought forward	15,000	0	0

INVESTMENTS.

	£	s.	d.		£	s.	d.
To Balance brought forward	15,000	0	0	By Cash, Proceeds Sale of Investments . .	15,000	0	0

SINKING FUND ACCOUNT.

	£	s	d.		£	s.	d
				By Balance brought forward, being Instalments from Profit and Loss Account to date . ..	15,000	0	0

It will be noted from the above accounts that when the sinking fund has accumulated to £15,000 at the close of the ten years, the investments are realised and the cash is utilised to pay off the debentures. When this liability has been discharged, nothing remains upon the books except the Sinking Fund Account. The purpose for which the fund was created has been achieved and, as it represents undivided profits periodically appropriated from Profit and Loss Account, it is clear that the fund becomes a general reserve, and should be transferred to, or form the nucleus of, an account under that name. Many students find difficulty in following this procedure—apparently for the reason

that the investment which represented the sinking fund has disappeared! As a matter of fact, the asset which represented the fund has merely changed its shape, and is now merged in the general assets of the undertaking.

Illustration (Replacing a Fixed Asset).—Herriotts, Ltd., purchased a machine which was essential to their business for £5,000 on December 31, 19. . The useful life of the machine was ten years A sinking fund to provide funds to replace the machine at the end of the ten years was created and duly invested from time to time. At the close of the ten years the following position was disclosed in the Balance Sheet of the Company:—

HERRIOTTS, LIMITED.

BALANCE SHEET, DECEMBER 31, 19...

	£	s	d.		£	s	d
Sinking Fund Account ..	5,000	0	0	Machinery Account.. ..	5,000	0	0
				Investments	5,000	0	0

CASH BOOK.

	£	s.	d.		£	s	d.
To Proceeds Sale of Investments	5,000	0	0	By Purchase of new machine	5,000	0	0

LEDGER.

INVESTMENT ACCOUNT

		s.	d.		£	s.	d.
To Balance brought forward	5,000	0	0	By Cash, Proceeds Sale of Investments .. .	5,000	0	0

MACHINERY ACCOUNT.

	£	s.	d.		£		
To Balance brought forward, cost of old machine	5,000	0	0	By Transfer from Sinking Fund Account .	5,000	0	0
,, Cash, cost of new machine	5,000	0	0	,, Balance carried down	5,000	0	0
	£10,000	0	0		£10,000	0	0
To balance brought down	£5,000	0	0				

SINKING FUND ACCOUNT.

	£	s.	d.		£	s.	d.
To Transfer to Machinery Account	5,000	0	0	By Balance brought forward, being annual instalments from Profit and Loss Account	5,000	0	0

From the above illustration it will be noted that when the sinking fund has been completed, the investments are realised and a new machine is purchased with the cash, and the old machine is scrapped. To adjust the book-keeping entries, the sinking fund is transferred to the credit of the Machinery Account, as shown.

The only account remaining open is the Machinery Account, the balance of which is now represented by the cost of the new machine.

Where the new machine (or other asset) will cost more than the original machine, then the proportion of the fund raised in respect of the excess is an appropriation of, and not a charge against, profits, e.g. a machine cost £5,000, but it was estimated that it would cost £6,000 to replace it. To the extent that the annual instalment is set aside to provide for the £5,000, it is a charge against profits, but to the extent that it provides for the additional £1,000 it is an appropriation of profits.

Surplus or Deficiency on Realisation.—It rarely happens that the cash realised by the sale of the investments representing a sinking fund exactly equals their cost price.. A profit or a loss is almost sure to result. The surplus or the deficiency must be carried to the Sinking Fund Account. The amount required to make good a deficiency must be treated as a loss. If a surplus is revealed, it should be carried to Reserve, though no serious objection could be raised to the treatment of the amount as revenue. In practice, it is usual to allow a margin when fixing the amount of the annual instalments for possible shrinkage in the fund, or to revise periodically the instalments allotted for its service.

The sinking funds, raised by Gas and Electric Lighting Companies for various purposes, have been dealt with elsewhere. States, Municipal Corporations and other Local Authorities are often under obligation to maintain sinking funds, to provide for the repayment of public loans. In many cases the funds thus accumulated are utilised to purchase the relative bonds or stock upon the open market, and these are afterwards cancelled.

Leasehold, Sinking Fund, or Capital Redemption Policies.

These policies afford a simple means of investing money by instalments and, in some respects, resemble instalment purchases. Policies of this kind are merely alternatives to the older practice of investing the annual sinking fund contributions in interest-bearing securities, or accumulating them in a deposit account at a bank. The rate of interest obtained by a policy is generally less than that secured by direct investment, but the policy holder is guaranteed against all loss, depreciation, and other risks incidental to investment.

Under a sinking fund policy, the assurance company undertakes to pay a stated sum at a named future date in consideration of receiving either a sum down, or an agreed series of premiums of equal amount. No life risk or other uncertain contingency is involved. In point of fact, all the assurance company guarantees is the accumulation of the premiums at an agreed rate without capital depreciation. The premiums, single or annual, are usually based upon an interest rate of 3 %, per annum, compound. A surrender value is allowed in the event of the policy holder desiring to terminate the contract before its maturity—i.e. in effect, to withdraw the money. The surrender value allowed varies with the practice of the insuring office between (*a*) nine-tenths of all premiums (other than the first) accumulated at 3 %, per annum, compound interest. (*b*) All

premiums paid accumulated at $2\frac{1}{2}$ %, per annum, compound interest.

For book-keeping purposes these policies may be treated in either of two ways :—

(1) All premiums are debited to the policy account as and when paid, and interest at the effective rate (usually 3 %) is charged thereon until maturity. This method has the effect of raising the account to the full face value of the policy at the date of maturity, and forms a replica of the accumulation process embodied by the assurance company in its own calculations. The question of the loss which would arise on the possible surrender of the policy is necessarily disregarded under this method.

(2) The policy account is constructed, and charged with interest, on the basis of the surrender value only. Any premiums which are not returnable on surrender are written off as a loss as and when paid. By this method, the policy account will show a smaller debit at maturity than the face value of the policy. When the policy is paid, the surplus received is treated as a profit, and is transferred to the Sinking Fund Account, if the policy represents such a fund.

The second method errs, perhaps, by being too prudent. The result shown by the first method is mathematically correct, assuming that the policy runs to maturity. Where the policy is a long-term one and its ultimate maintenance is uncertain, the second method should be adopted.

In some life assurance companies, sinking fund policies are in force which total millions of pounds. Such policies are not taken out in this country to any great extent by private investors as a means of accumulating savings. In France the system has some vogue, and companies have been formed mainly for the purpose of issuing policies of the kind.

In this country the majority of Capital Redemption Policies are taken out in order to provide a suitable investment for a sinking fund. Periodical transfers from the Revenue Account to the Sinking Fund Account must be made to keep pace with the accumulation of premiums. At the same time the interest debited on the policy must be credited to the Sinking Fund Account. Where the policy is maintained in the books on the basis of its surrender value, the surplus received on maturity is also transferred from the debit of the Policy Account to the credit of the Sinking Fund Account.

Reserves.

Definition.—The form of Balance Sheet appended to Table A in the *Companies Act of* 1862 defined a reserve as "the amount set aside from profits to meet contingencies." In modern times, the term is of wider import than this definition implies, and is sometimes, perhaps, rather loosely employed. It may, however, be applied legitimately to any provision made to meet any known or anticipated waste, liability, loss, or contingency, and also where

profits are retained in the business to strengthen its financial position. Some Reserves may be considered to be obligatory: others to be voluntary. The former arise from the necessity of providing for some known liability or for the waste of fixed assets; the latter are prudential appropriations of surplus profits.

The more common reasons for creating reserves may be summarised as follows :—

(1) **Reserves for Specific Purposes.**—These are charges against *profits* and are made to meet known liabilities, or for expenses incurred, e.g. outstanding salaries and wages, travellers' or managers' commission, accrued interest, income tax, rebate on bills not due (banks), unpaid annuities, outstanding claims admitted but not paid, and commission due to agents (insurance companies), maintenance funds under contracts for repairs and renewals; provision for depreciation, dilapidations, leasehold redemption, investments depreciation, and for the exhaustion of minerals, and so on.

(2) **Reserves for Contingencies.**—Such contingencies may arise in respect of pending claims for damages, apportionment of premium income carried forward to cover unexpired risks, reserve for losses in course of adjustment (fire insurance companies), provision for discounts, or for bad debts, or for possible losses under the *Forged Transfers Acts*, fire and marine insurance funds, and so on. There are also contingent liabilities and other matters for which no specific reserve is made, but to which attention should be called by means of a note on the face of the Balance Sheet, such, e.g., as arrears of cumulative preference dividends,* liability for calls on partly paid shares, liability on bills under discount, liability under guarantees, and the like.

(3) **Reserves for General Purposes.**—The provisions dealt with under categories (1) and (2) are, in varying degrees, obligatory. The reserves included under this heading are voluntary. They pre-suppose profits, and are built up by means of *appropriations from profits* for the general object of enhancing the financial stability of the undertaking, e.g. the creation of a General Reserve Fund, or a fund for the Equalisation of Dividends. In this category may be included superannuation, staff pension, sickness, and other provident funds established for the benefit of employees.

Reserves Contrasted.—General reserves of the kind mentioned in (3) above are *appropriations from profits*, and are set out in the Balance Sheet on the liability side. Reserves for the specific and contingent purposes detailed in (1) and (2) above are *charges against profits* and, if associated with, or made upon, assets are *deducted* from the relative assets in the Balance Sheet. The student must carefully note this difference of treatment between these two classes of reserves

Legal Position.—Joint Stock Companies in this country are under no legal obligation to accumulate reserves, except, of course, in so far as the articles of association may expressly provide. In the

* These dividends are not actually due until recommended by the directors and duly declared.

eyes of the law the question of reserves is one best left to the discretion of the directors and shareholders. Article 93 of Table A gives directors power, before declaring dividends, to set aside out of profits such reserves as they think proper for contingencies, equalisation of dividends, or other purposes. This article, of course, is operative only when Table A has been adopted. But the articles of most companies contain similar provisions. In some cases the articles provide that a certain percentage of the profits shall be carried to reserve until that account has reached a fixed amount, or a fixed proportion of the paid-up capital of the company.

Companies sometimes desire to capitalise reserves invested in the business. In such cases the practice is to declare a bonus or dividend, free of tax, payable out of the reserve, and to issue fully paid shares *pro rata* amongst the shareholders.

It is interesting to note that, under French and Belgian law, joint stock companies are obliged to set aside a reserve of not less than 5 % of surplus revenue in each year, until an amount equal to one-tenth of the capital has been accumulated.

(4) **Credit and Debit Reserves.**—This may not be a very scientific designation. "Provisions" or "Suspense Accounts" are perhaps better terms. The term reserve is, however, commonly applied by book-keepers to apportionments and other reservations made against, or in favour of revenue, and it is convenient, therefore, to adopt the term here. Such reserves usually take the form of the apportionment of expenses paid in advance, e.g. insurance premiums, or rent or rates, covering a period subsequent to that dealt with by the accounts, interest and dividends accrued due but not paid; premiums accrued due (insurance companies); unexpired portions of subscriptions (clubs, libraries, etc.); apportionment of advertisement receipts and subscriptions paid in advance (newspapers); unexpired apprentice premiums, and the like. Discounts claimable from creditors are sometimes, though not frequently, also reserved for. The term, "Suspense Accounts," also covers deferred expenditure carried forward and spread over a term of years, e.g. preliminary expenses, debenture issue expenses, abnormal advertising expenditure, abnormal repairs and alterations, removal expenses, and so on.

It may be useful to examine some of the contingencies for which reserves are created in rather more detail.

Reserve for Bad Debts.—A reserve for this purpose frequently appears as a credit item in the Trial Balance of questions set in examinations. Its proper treatment may be considered too elementary a matter for notice here, but the item is such a fruitful source of error, even in advanced examinations, that it seems to be worth while touching upon it even at the risk of proving tiresome to some readers.

The practice of most business houses is to reserve a fixed percentage upon the amount of "Sundry Debtors" at the close of any financial period. Sometimes, the provision is a fixed percentage upon the sales, but in the author's experience, this

practice is not common. The percentage reserved is debited to the Profit and Loss Account as a charge against profits, the Journal entry being :—

			£	s	d.	£	s	d.
	Profit and Loss Account Dr. .. .. .. To Reserve for Bad and Doubtful Debts .. Being 5 % provision upon the amount of the sundry debtors on this date (£3,000).		150	0	0	150	0	0

Upon closing the books for the period, therefore, a Reserve Account for Bad Debts amounting to £150 remains as an open credit balance. If any debts due are ascertained to be actually bad during the year, they are sometimes debited to this Reserve Account, but more frequently they are debited direct to a Bad Debts Account. At the close of the year the total of the Bad Debts Account is transferred to the debit of the Profit and Loss Account, and the Reserve for Bad Debts is again adjusted, so as to provide a reserve of 5 % on the sundry debtors, together with the reserve which already exists upon the books.

Example.—James Smith & Co. create a reserve of 5 % on £2,000, the amount of their book debts as on December 31, 1931. A Reserve for Bad Debts Account is opened and credited with £100. During the year 1932 actual bad debts amounting to £42 9s. 6d. are incurred, and debited to Bad Debts Account. On December 31, 1932, the sundry debtors amounted to £3,000. It is agreed that a provision of 5 % is again desirable. The following entries appear in the books and accounts of the firm:—

LEDGER.

DR. RESERVE ACCOUNT FOR BAD DEBTS. CR.

			£	s.	d.				£	s	d
						1931. Dec. 31	By Profit and Loss Account		100	0	0
						1932. Dec. 31	,, Profit and Loss Account		50	0	0
								£	150	0	0

DR. BAD DEBTS ACCOUNT. CR.

			£	s	d				£	s	d.
1932. Feb. 14	To Transfer J Brown		12	9	6	1932. Dec. 31	By Profit and Loss Account		42	9	6
Mar. 12	,, Transfer: R. Jones		30	0	0						
		£	42	9	6				£42	9	6

DR. PROFIT AND LOSS ACCOUNT CR.

			£	s	d				£	s.	d.
1932. Dec. 31	To Bad Debts . .		12	9	6						
,,	,, Reserve for Bad Debts, Dec 31, 1932 . £150 0 0 *Less* as on Dec. 31, 1931 .. £100 0 0		50	0	0						

BALANCE SHEET, DECEMBER 31, 1932.

	£	s.	d.		£	s.	d.
				Sundry Debtors £3,000 0 0 *Less* Reserve for Bad Debts 150 0 0	2,850	0	0

If the alternative but less common method, referred to above, of dealing with actual bad debts through the Reserve Account is adopted, the account would appear as under:—

DR RESERVE ACCOUNT FOR BAD DEBTS. CR

		£	s.	d.			£	s.	d.
1932. Dec. 31	To Transfer (Bad Debts) ..	42	9	6	1932 Jan 1	By Reserve at this date (5% on £2,000) .	100	0	0
"	,, Reserve (5 % on £3,000) carried down	150	0	0	Dec. 31	,, Transfer to Profit and Loss Account	92	9	6
		£192	9	6			£192	9	6
					1933 Jan. 1	By Balance brought down	£150	0	0

If the book debts on December 31, 1932, were less than on December 31, 1932, the Profit and Loss Account would be credited with the reserve no longer necessary, and therefore written back. Of course, it would not be incorrect for the examination candidate to charge the actual bad debts of £42 9s. 6d to the debit of the Bad Debts Reserve, and then provide the sum (£92 9s. 6d.) necessary to create the 5 % reserve. The more general practice is, however, as set out above, and the student will probably be wise to follow this practice when dealing with examination work.

It is common to find that, through carelessness, or want of proper instruction, the examination candidate, in making the provision for bad debts directed by the question, omits to take credit for the Reserve which already exists in the books, and which appears in the Trial Balance as a credit item. For example, to take the illustration already given, the careless student would charge the Profit and Loss Account with £150, being the whole Reserve now required for bad and doubtful debts, ignoring the old Reserve of £100; and, upon making up his Balance Sheet, would schedule the old and new reserves as £250.

In a concern of any magnitude there will always be some accounts outstanding with debtors whose solvency is doubtful. Notices of bankruptcy, liquidation, or deeds of arrangement may have been received. These should be duly noted in the Ledger. It is impossible to say what may be realised in respect of such debts. If they are written off as bad they are apt to be lost sight of. Dividends and compositions may continue to come in for some considerable time. Where doubtful debts are numerous,

it is a good plan to open a "Doubtful Debt Ledger," transfer suitable accounts to it, and place it under the care of a clerk specially charged to watch such accounts This will relieve the ledgers of dead accounts, and ensure the exercise of due vigilance in their collection.

Depreciation has been dealt with at pp. 67–81. Strictly speaking, depreciation is not a reserve. It is not a provision out of surplus profits to meet contingencies which *may* arise, but an estimate of the actual waste which *has* arisen. It is in the nature of an annual instalment of an amount paid in advance for the work to be effected by some revenue-producing asset, such, e.g. as a printing machine. Occasionally, however, the student will encounter a "Reserve Account for Depreciation" on the liability side of a Balance Sheet, the relative wasting asset being left at its original cost price amongst the assets. This treatment of the depreciation charge cannot be avoided under the double-account system, but, except in very special circumstances, the practice is not to be commended, and should not be adopted by the examination candidate. Provision for waste should be deducted from the specific asset to which it relates, on the assets side of the Balance Sheet, and its present net book value thus clearly shown.

Reserve for Repairs and Renewals. Maintenance Reserves.—In some trades, particularly perhaps those dealing with acids, the charges under this head are not only heavy but irregular in their incidence. It is then wise to obtain an expert estimate of the total expenditure on repairs during the probable life of the asset, to create a Repairs Reserve Account, and to credit it every year with an equal instalment of the total estimated cost of repairs, debiting the Profit and Loss Account with a like amount. If the experience is available, an average of the expenditure of a series of years will afford the necessary basis for the annual transfer to the fund. When actual repairs are effected, they are debited to the Reserve Account. In this way the charge for repairs is equalised as between one trading period and another. Care must, of course, be taken to ensure that the Repairs Reserve Account is, in normal circumstances, always in credit.

Electrical and other engineering companies frequently undertake contracts for the repair and maintenance of plant which they have installed. In most cases, such contracts require the creation of prudent reserves. For example, an electrical engineering company has installed a large battery for a lighting corporation. A contract has been entered into to maintain this installation in efficient working order for a period of eight years at an annual premium of £2,000. During the first three or four years of the contract the expenses of maintenance are practically nil, whereas in subsequent years they become increasingly heavy. The practice is to treat a certain portion of each premium as revenue, the remainder being treated as a reserve against which future maintenance expenses are charged. There are no hard

and fast rules for the construction of such reserves. Every undertaking has its own methods. All that can be said is that, in principle, such reserves are based upon the estimates made by the engineering experts as to the accruing future liability under the contracts.

Reserve for Dilapidations.—Where a leaseholder is liable to make good dilapidations at the termination of a lease it is advisable, at a date reasonably in advance of the expiration of the lease, to create a reserve in order to provide funds to defray the estimated cost of the dilapidations. The advice of architects, surveyors, or other experts must be sought in order to determine the figures upon which to base the fund. Dilapidations are sometimes provided for by estimating their probable cost, and creating a sinking fund, or taking out a policy of insurance, to provide for the liability at maturity. More frequently, however, the matter is shelved until the end of the lease approaches.

Trust Funds (Charities, etc.).—Gifts and legacies are sometimes made in favour of philanthropic and other institutions for specific purposes, e.g. for mission work in a foreign country, or to endow a hospital bed, or found a scholarship, etc. The amount received cannot, of course, be treated as current income. It should be separately invested and earmarked on the liability side of the Balance Sheet as reserved for the specified purpose.

Reserves for Deposits.—A similar liability exists with regard to deposits made by employees, public-house tenants, and others, by way of guarantee. In such cases, however, no separate investment is usual, or necessary.

Secret Reserves.—It is the common practice of banks and financial houses, and, also, of some commercial houses, to create secret reserves, that is to say, reserves accumulated out of profits which are not disclosed in the published accounts.

In the case of banks the most frequent methods of creating secret reserves are :—

(*a*) Excessively depreciating the bank premises owned.

(*b*) Maintaining assets at cost in cases where they have greatly appreciated. As compared with pre-war days, however, reserves so created have largely disappeared except, perhaps, in the case of city buildings.

(*c*) Omitting assets altogether from the Balance Sheet, e.g. altogether writing off furniture and fixtures. There is also the oft-quoted example of the premises of the Bank of England, which do not appear in the Bank Return.

(*d*) Over-providing for bad debts and other contingencies.

(*e*) Creating special reserves for remote contingencies.

In commercial houses, one or other of the reserves above mentioned may be found in divers forms, the most common, probably, being excessive provision for depreciation on premises, and machinery and plant. Capital expenditure may be charged to revenue, stock-in-trade be undervalued, or goodwill written off. In these days, when such scant information of working

costs is disclosed in the published accounts of companies, it is easy to create secret reserves. The Articles of Association of many companies give absolute discretion to the directors as to the creation of reserves prior to the payment of dividends. They do not, as a general rule, stipulate that such reserves shall be disclosed in the accounts.

The form of the general Balance Sheet made obligatory by the *Railway Companies (Accounts and Returns) Act*, 1911, has had the effect of disclosing particulars of reserves, whose existence was previously unsuspected by the general public.

So far as the author is aware, the question of secret reserves has only once been the subject of litigation, viz. in *Newton* v. *Birmingham Small Arms Company, Ltd.*, [1906] 2 Ch. 378. The Company passed special resolutions amending its Articles of Association in order to give the directors power to create secret reserves out of profits. The existence and details of the reserves were to be known to the Company's auditors, but were not to be communicated by them to the shareholders, or others. Plaintiff sought to establish that these special resolutions were *ultra vires*. The gist of the judgment of Buckley, J., appears to be that, while the power granted by the special resolutions for the creation and non-disclosure of secret reserves did not in his opinion render them *ultra vires*, the resolutions went too far in precluding "the auditors from availing themselves of all the information to which under the Act they are entitled as material for the report which under the Act they are to make as to the true and correct state of the Company's affairs." An injunction was, therefore, granted restraining the Company from acting on the special resolutions. This decision does not carry us much further, since it appears to have turned upon the attempt to interfere with the duties enjoined upon auditors by the Companies Acts.

The ethics of secret reserves offer a wide field for debate. But while over-statement of profits meets with universal condemnation, under-statement of profits, in certain circumstances, must be allowed to be justified.

To summarise briefly, it may be said:

(1) The creation of secret reserves, within reasonable limits, is widely approved by financial authorities.

(2) Many items in a Balance Sheet must of necessity be estimates only. To the extent, therefore, to which the temperament of the person who constructs it is prudently biased, to that extent will secret reserves always exist. The reserves may be small or large, but they will be there.

(3) In the author's opinion, this is not a question which admits of hard and fast decision.

The point to be decided is on which side does the balance of advantage lie, and wisdom suggests that the question should be dealt with in the light of the facts. In the case of banks and other financial houses, the maintenance of unimpeachable credit

is essential, and, in the absence of secret reserves, the disclosure of any abnormal losses, provision for which must necessarily be made out of current revenue or general reserve, might well impair confidence and create unrest. Similar considerations might, conceivably, dictate policy in speculative businesses liable to severe fluctuations of fortune. In such cases as these, secret reserves tend to maintain dividends at a normal level. Objectors may urge that the creation of secret reserves tends to depress dividends, and market quotations for the shares, or even afford a lever for manipulating their price. But if the directors in creating secret reserves have exercised discretion and foresight in view of the nature of the business, and its contingent liabilities, and have had regard less to the temporary advantage of the shareholders than to the permanent welfare of the company, little can be said against them. The practice may, however, be carried too far Secret reserves may be created so greatly in excess of all probable contingencies that the market quotations for the company's shares may be unduly and even fraudulently depressed to the detriment of the company's existing shareholders.

Income Tax.—Usually, reserves are made for the estimated liability for income tax on the statutory profit of the year for which the accounts are under construction. There can be no doubt of the wisdom of this procedure. It may, however, be acknowledged that such provisions are not always helpful in appeal cases.

Reserves for Discounts.—Examination candidates will be unwise to make any reserve for discounts unless they are specially directed to do so It is certainly true that, in many cases, debtors are entitled to discounts at varying rates, if they pay their accounts within specified dates. They may, or they may not, take advantage of this privilege, with the exception of a few trades where discounts are abnormally large. The arguments for and against the practice of making reserves for discounts are as broad as they are long, and in the author's experience the majority of business men prefer to treat this concession as a financial transaction, within the period when it actually occurs, i.e. when the account is paid and the discount claimed. As a general rule, it will be found that, proportionately to the turnover, one year will average with another in respect of the amount of discount allowed.

Sometimes, where these reserves are created they are based upon a detailed examination of all outstanding debts, each debt being dealt with on its merits, but in the majority of cases they are calculated upon the basis of a fixed percentage of the book debts, after allowing for debts believed to be bad. The book-keeping entries are a replica of those used in the case of bad debt reserves.

Occasionally, but not frequently, reserves, in relief of revenue, are made for discounts which it is expected will be received from sundry creditors. If this course is followed, the total discount claimable is credited to the Discount Account and debited to a Discount Receivable Account.

In both cases, if these reserves are made, they should be deducted from the relative asset or liability in the Balance Sheet.

Marine and Fire Insurance Funds.—Instead of paying premiums to Lloyd's, or to insurance companies, shipping and other undertakings sometimes insure their own risks, and create reserves for the purpose. For example, a company initiates a marine insurance fund. It charges its working account with the full insurance premiums at market rates. But the greater proportion of the risk on each ship is covered with outside underwriters and the balance only is undertaken by the company, debited to Premiums Account, and credited to the Marine Insurance Reserve Fund. The proportion of the risks so undertaken by the Company is gradually increased, until a fund has been established which justifies the management in undertaking the whole risk. Actual losses, expenses, re-insurances, and average and salvage claims are charged against the Reserve Fund, as and when incurred. The balance of the Fund appears, of course, on the liability side of the Balance Sheet. Some commercial undertakings create fire insurance funds upon the same lines. In both cases this procedure is impracticable except where the risk incurred is spread over a considerable number of units, thus allowing the law of average to come into operation. Funds of this nature, to be effective, must be separately invested outside the business. Floating marine insurance policies are sometimes taken out for a round sum against which actual risks are declared from time to time, e.g. a company may take out a floating policy for £50,000, the premium on which is £500. At the close of the financial period the risks actually declared against this cover may only amount to £30,000, in such event the unexpired balance (two-fifths) of the premium may be carried forward to the next accounting period.

Equalisation of Dividends.—Where the profits of a company are liable to severe fluctuations owing to climatic conditions, or other causes, it is wise to create a reserve for the purpose of maintaining some equilibrium in the rates of dividend, transfers being made from the fund to augment the profits of lean years.

Sometimes the Articles of Association of limited companies provide for the creation of a reserve fund for this special purpose, and sometimes they prohibit the distribution of dividends beyond a fixed maximum rate, until a reserve fund of certain dimensions has been accumulated. Experience leads the author to suggest that these limitations, imposed in ignorance of future developments, are sometimes embarrassing, and that it is advisable to entrust this matter to the unfettered discretion of the directors.

Forged Transfers Acts (1891–1892) Fund.—Limited companies cannot repudiate their own share certificates, and are liable to make good losses incurred by a holder who acted in good faith on the strength of a certificate obtained by means of a forged transfer. Companies who adopt the above Acts have power to pay compensation for losses arising out of forged transfers. In some cases a special reserve is created for the purpose, and in

other cases a Lloyd's policy is taken out to cover the risk. This subject is also dealt with at p. 193.

Capital Reserves.—Reserves other than those created by direct transfers from revenue may be appropriately designated Capital Reserves, thus indicating that they cannot wisely be used for revenue purposes. Profits realised by the sale of fixed assets; appreciations in the value of fixed assets (if dealt with at all); profits prior to the incorporation of a company; and premiums realised on the issue of fresh capital, may be instanced as capital reserves. In some cases a company's articles forbid premiums on new capital to be used for revenue purposes. This was the case with reference to all companies to which the 1862 Table A applied.

Reserve Liability of Limited Company (*Companies Act*, 1929, S. 49).—As explained in the chapters dealing with joint stock companies, a limited company may determine by special resolution that a certain portion of each share shall remain uncalled except in the event of liquidation. This procedure is not often followed except by banking companies, who frequently possess a reserve liability considerably in excess of the amount of the paid-up capital, and by this means afford their customers a valuable reserve in case of need.

Redemption of Debt. Replacement of Assets.—Sinking funds are frequently created for these purposes. These funds are raised (1) to extinguish debts such as debentures or municipal borrowings, or (2) to accumulate funds to replace wasting assets, such as leases. They are not charges against profits, but, as surplus revenue is the only source from which such funds can be built up, they are treated as reserves, and appropriations are made from profits for their service In such cases it will be clear that the only way in which such funds can be made of practical effect is to separately invest them outside the undertaking. The subject of Sinking Funds has been separately dealt with at pp. 81–90.

Reserve Fund and Reserve Account.—General reserves, appropriated out of profits, are separately stated on the liabilities side of the Balance Sheet. Such reserves may, or may not, be separately invested. In the author's opinion this is entirely a question of expediency, and is not a fit subject for dogmatism. The object of withholding the division of profits in order to create such reserves, is to enhance financial stability, to encourage credit, and to accumulate working capital. The latter, perhaps, embraces all other advantages, for it has been well said, "there is no better way of bringing capital into a business than by not taking it out." There can be no doubt that the present prosperity of many well-known concerns may be traced to this prudent policy. From time to time considerable discussion has arisen concerning the terms Reserve Fund and Reserve Account. From the commercial point of view much of this is tiresome obscurantism. It has been suggested that it would be convenient to employ the term Reserve Fund only where the reserve was withdrawn from the business and separately invested, and the

term Reserve Account to designate a reserve which, though created out of profits, yet remained in the business in the shape of various assets. Some examination candidates are in the habit of stating that these terms are actually so employed in financial circles, but reference to a series of published accounts will demonstrate that the fact is otherwise.

Suspense Accounts. Adjustments. Expenses Paid in Advance. Expenses Accrued Due, etc. Accrued Revenue.—Although not reserves in the strictest sense, such items may be conveniently mentioned here. Most frequently the student meets with them in respect of expenses paid in advance, e.g. insurance premiums; or expenses of an abnormal character, e.g. preliminary expenses, or debenture issue expenses, which it is desirable to spread over a period. Again, expenses may have accrued due at the date of balancing—wages, where the balancing date falls on a date other than pay-day, being the most frequent example in this category. Revenue accrued due but not received also forms the subject of reserves in the reverse direction, e.g. interest, or dividends on investments or loans, rents receivable, etc. Sometimes such items are debited or credited, as the case may require, to an omnibus Suspense Account, but more usually the relative nominal account is debited or credited with the item to be carried forward, and the outstanding balance is treated as a debtor or creditor. Where preliminary expenses, debenture issue expenses, or similar extraordinary expenditure is "held up" as an asset in suspense in the Balance Sheet, the instalment chargeable to each period is debited to the Profit and Loss Account and deducted from the relative suspense asset in the Balance Sheet. Adjustments of the kind are sometimes called for in examination questions, and candidates frequently come to grief when dealing with them. They either omit to deal with them at all or make one entry only, and, in consequence, fail to "balance." The necessary adjustment is usually made correctly in the Trading or Profit and Loss Account, but the relative debtor or creditor balance is omitted from the Balance Sheet. In working an examination exercise, it is advisable to make a rough Journal entry of such items together with the other adjustments called for by the question. The likelihood of either part of the entry being overlooked, or incorrectly treated, is thus greatly minimised.

Reserves for Unexpired Risks.—These reserves, incidental to fire, accident, and other forms of insurance business, are dealt with in the chapter on Insurance.

EXAMINATION QUESTIONS.

1. What is "Capital Expenditure"? How would you decide whether a particular item of expenditure comes under this category? Give examples. (*Royal Society Arts.*)

2. State the considerations which would guide you in deciding whether any particular item should be regarded as of a "Capital" or of a "Revenue" nature. (*London Chamber Commerce.*)

3. What evidence should an auditor call for as to Capital Expenditure,

and in what way should he satisfy himself that such expenditure could legitimately be carried to Capital Account? *(Chartered Accountants.)*

4. State clearly what principle you would adopt for your guidance in determining whether expenditure upon Plant and Machinery should be charged against Capital or Revenue; and, in the latter case, why you would in certain circumstances allow such to be spread over three or more years. *(Chartered Accountants.)*

5. Explain the basic principles which would guide you in allocating expenditure as between Capital and Revenue. Illustrate your answer by selecting two of the assets given below, describing expenditure upon them, and allocating it as between Capital and Revenue: Leasehold Factory; Printing Machine; Patent; Horses and Vans. *(London Chamber Commerce.)*

6. Discuss this statement: That the value of capital outlay is unaffected by current market fluctuations in price. *(Incorporated Accountants.)*

7. Would you consider the following chargeable to Capital Expenditure or Revenue?—(*a*) Premium given for a Lease. (*b*) Costs attending a Mortgage. (*c*) Commission on issue of Debenture Bonds. (*d*) Commission on issue of Debenture Stock. (*e*) Accrued Dividend or Interest included in cost price of an investment. (*f*) Interest to date of completion on a land purchase. *(Chartered Accountants.)*

8. Is it right to charge "Buildings Account" with interest on the outlay? Give reasons for your answer. *(Chartered Accountants.)*

9. Are the Directors of a Limited Company, making large profits but having a constantly changing body of shareholders, justified in making extensions and erecting new works out of profits? *(Chartered Accountants.)*

10. Give your views as to the propriety of charging to Capital interest on cash employed during the construction of works or the sinking of coal-pits. Is there any divergence of views or of decisions on the subject? *(Chartered Accountants.)*

11. A firm expends a large sum upon advertisements in order to form a business Assuming that the expenditure thereon decreases annually until, in the seventh year, it reaches a point representing a normal cost under this head, how would you expect the amounts to be treated in this year's Balance Sheet? In your reply, let £14,000 be the expenditure of the first year, and decrease £2,000 annually. *(Chartered Accountants.)*

12. Select two types of fixed assets and describe the basic principles upon which you would allocate additional expenditure in connection with them as between Capital and Revenue. *(Chartered Accountants.)*

13. A Company making a small regular annual net income changes its terminable Debentures—for the purpose of economy partly, and still more for security against chance of liquidation—into Debentures to be paid off by annual drawings, on the principle of a sinking fund, within thirty years, incurring thereby a considerable expense in discounts and commissions; state how you would deal with such expenses, whether to Capital or Revenue, and give reasons. *(Chartered Accountants.)*

14. You are auditing the accounts of an Electrical Supply Company. Certain expenditure has been incurred, partly for renewals of mains and partly for new mains. What evidence should you require as to the apportionment of the expenditure? What would be the effect of £200 expenditure on renewals being treated as expenditure on new mains? *(Incorporated Accountants.)*

15. In auditing the Profit and Loss Accounts of a Mining Company, you find large sums of money included therein under the head of "Prospecting and Development Account," and you are informed that these consist of moneys spent in sinking shafts and driving levels during the year under review, some of which shafts and levels have been productive and others not. Do you consider that this expenditure is properly chargeable to Profit and Loss? Give your reasons. *(Chartered Accountants.)*

16. The Northern Gas Co. rebuild and re-equip a part of their works at a cost of £50,000. The part of the old works thus superseded cost originally

£30,000, but if erected at the present time would cost £35,000. £2,000 is realised by the sale of old materials, and old materials to the value of £1,000 are used in the reconstruction, and included in the cost of £50,000 above mentioned

Give the Journal entries for recording the above transactions in the books of the Company, showing particularly what amounts you consider should be charged to Capital Expenditure, and what to Revenue Expenditure, stating your reasons for your decision (*Chartered Accountants.*)

17. A Tramway Company, incorporated by Act of Parliament, has equipped its line at a very considerable outlay for steam traction. During the year under audit, it obtains leave to work its undertaking by electricity. In consequence of this change of traction, £18,000 of expenditure has been incurred in adapting and re-equipping the line for electricity. The locomotive engines and a considerable amount of plant adapted for their repair, and other property, the cost of which, £45,000, has been debited to Capital outlay, have also been rendered useless to the undertaking, and have during the year been sold at £30,000, showing a loss, as against cost, of £15,000. The profits from the year's traffic are £7,500 Can this Company pay a dividend, and how should the matter be dealt with in the Company's accounts? State your reasons. (*Chartered Accountants.*)

18. The Directors of the Patagonia Railway Company, Ltd., propose to charge all expenses, including London office charges and interest on Debentures, to Capital Account until such a time as the whole line is completed and open for traffic. They also propose to pay to their Shareholders 4 % during construction, and charge the same to Capital. The line is expected to be opened in three sections at yearly intervals. To what extent (if any), and under what conditions and restrictions could you as auditor pass such charges to Capital? (*Chartered Accountants.*)

19. An old building which originally cost, and stands on the books of the firm at £1,050, is pulled down, and a new one erected in its place £50 worth of old material out of the old building is sold, and £200 worth is used on the new building. In addition to this, £1,250 is expended under a contract for its construction. £600 had been set aside by the firm as depreciation on the old building, and is now appropriated. What addition to the Capital Account will legitimately arise on the rebuilding, and how much will have to be borne by Profit and Loss? (*Chartered Accountants.*)

20. How should a Colliery Company estimate the value of its colliery in its Balance Sheet from time to time: (1) as a Freehold, (2) as a Leasehold? (*Chartered Accountants.*)

21. An Engineering Company has built a new workshop and equipped it with new lathes. A portion of the work has been done by the Company's own men, and a portion by outside contractors. The addition has rendered it needful to provide increased steam power, and, consequently, an old engine has been sold and been replaced by a larger one purchased.

State what evidence you would require, as auditor, that the amounts charged to Buildings Account and Plant Account were correct, and how the cost of the additional steam power should be dealt with. (*Chartered Accountants.*)

22. A Limited Company has removed its business to new works, which have cost, including freehold land, £30,000. A portion of the Machinery and Plant, at an estimated value of £14,000, has been removed to the new works at a cost of £1,800. The remainder has been sold, showing a loss on the total book value of the Machinery and Plant of £3,200. The profits for the year, including the balance brought forward from the previous year, after making provision for depreciation of 7½ % on the Machinery and Plant, are £4,500, without taking into account the above-named loss, and are about the normal amount of profits in previous years.

State your views as to the proper mode of dealing with the cost of removal and the loss on the sale, and whether, apart from financial considerations, the Directors would be justified in declaring a dividend. (*Chartered Accountants.*)

23. A Cemetery Company working under the Companies Act sells the

right of burial in grave spaces. What portion of the proceeds should be distributed amongst the shareholders? Answer this question with regard to the distribution of Capital. (*Chartered Accountants.*)

24. A Gas Company laid down a main costing £7,500, which remained undisturbed for fifteen years; then one-half of this was replaced by a larger one costing £6,300. An extra main was laid alongside the other half of the original one (which remained in use) at a cost of £4,200. How much of the items of £6,300 and £4,200 should be charged to Capital Expenditure? (*Chartered Accountants.*)

25. The following items are included in the Balance Sheet of a Company under the head of Works and Plant: Wages, £13,712 9s. 3d.; Salary of Engineer, £1,155; Two-thirds of Salary of Secretary $1\frac{3}{4}$ years, £466 13s. 4d.; One-half Directors' fees ditto, £1,000; Interest on Bank Loan, £327 12s. 6d.; Law Costs *re* Ancient Lights, £832 15s. 11d. Do you see anything objectionable, and if so, what, in these items being treated as Capital outlay? (*Chartered Accountants.*)

26. A fire destroyed part of the factory of George Dickson. The damage sustained was as follows:—

	Cost	Book value	Amount claimed.
	£	£	£
1. Machinery destroyed	3,500	2,950	3,200
2. Machinery damaged	1,200	1,100	360
3. Stock destroyed	4,850	4,000	4,750
4. Stock damaged	1,000	1,000	400
5. Expenses incurred in extinguishing fire	35	—	35

The claim was settled with the Insurance Company for £8,185, made up as follows: (1) £3,000; (2) £350; (3) £4,500; (4) £300; (5) £35.

How should you record this settlement in George Dickson's books? (*London Chamber Commerce.*)

27. On January 1, 19.., a Limited Company, of which you are auditor, issued 200 5% Debentures of £100 each at par. The amount raised by the issue was expended in the erection of a new machine shop, which was completed and in full operation on November 1, 19...

When auditing the books for the year ended December 31, 19.., you find the understated Journal entry. Do you approve of it?

		£	s.	d.	£	s.	d.
Sundries. *Dr.*							
To Debenture Holders, Interest					1,000	0	0
Buildings Account .. .		833	6	8			
Interest Account		166	13	4			

(*Chartered Accountants.*)

28. Carver has fully insured against all loss by fire. A fire occurs on part of the premises, and the Insurance Company settles the claim for £1,940, as follows:—

	£	£
Plant and Machinery		500
Buildings		700
Stock destroyed		300
Stock damaged—50% of value		180
Consequential loss—		
Wages paid to retain men	70	
Incidental outlay	40	
Loss of Profit	150	
		260
		£,1940

The Plant and Machinery lost was old, and had been entirely written off. Carver decided not to replace it, as his other machinery was ample for his trade. The buildings were repaired at a cost of £450. By expending £50 on the damaged stock, he was able to sell it at the full price. Set out the accounts to record the above, showing how you would finally deal with the various differences. *(Chartered Accountants.)*

29. A Company desirous of extending its premises obtains estimates for the work from builders, the lowest of which is £4,000. On consideration of the circumstances the Directors of the Company decide to carry out the work by means of their own staff, and the additional premises figure in their Balance Sheet at £4,000, made up as follows :—

	£
Net Cost of Materials purchased	1,300
Discount thereon transferred to Interest and Discount Account	30
Labour on erection	2,240
Managing Director's supervision (part of his annual salary)	100
Proportion of Office Expenses	50
Interest on outlay to date of completion	40
Profit, transferred to Profit and Loss Account	240
	£4,000

What view should an auditor take of this transaction and of the various items involved. *(Chartered Accountants.)*

30. The leasehold factory of Blanks Limited was burnt down on January 3, 19... The claim of the Company against the Fire Assurance Company was settled by the assessors at £24,569: £15,787 being for Machinery and Plant, and £8,782 for Stock. The latter item had been valued three days previously, for the purposes of the annual accounts, at £8,000. The Machinery and Plant, after annual depreciation, stood in the books at £12,000.

As auditor to the Company, you are asked how these items should be treated in the books and accounts.

What advice should you give? *(Chartered Accountants.)*

31. A fire partially destroys a factory and damages a quantity of stock. The Insurance Company settles the claim thus: By a lump sum in lieu of rebuilding. By a further sum in respect of the beneficial interest of the insurers in the property during rebuilding. By selling the damaged stock to the insurer at an agreed sum, deducting such sum from the gross claim for loss of stock. The rebuilding is effected at a lower cost than was anticipated, and a surplus remains. The damaged stock is disposed of at a profit. How would you deal with the results of these transactions if you were certifying as to trading profits? *(Chartered Accountants.)*

32. What is "Goodwill"? How can its retention as an asset in the Balance Sheet from year to year be justified? *(Royal Society Arts.)*

33. What is "Goodwill"? How is it that the published Balance Sheets of many prosperous Companies do not include "Goodwill" as an item? *(Royal Society Arts.)*

34. What are the arguments for and against the writing down of "Goodwill"? *(Incorporated Accountants.)*

35. In the event of your finding a sum taken credit for under the denomination of "Goodwill," what checks would you apply to test its approximate value? *(Chartered Accountants.)*

36. It has been stated that "Goodwill is an intangible asset and should be written off as soon as possible."

What are your views with reference to this statement? Submit a *pro forma* Balance Sheet of a Company containing an item for Goodwill, and describe the effect which the elimination of this item would have upon the financial position of the Company. *(Royal Society Arts.)*

37. What are the rights of the vendor and purchaser respectively on the sale of the Goodwill of a business? *(Chartered Accountants.)*

38. Suggest an explanation of the fact that Goodwill may be entered in annual Balance Sheets at its cost price, irrespective of fluctuations in its value since its purchase, and without any necessity for an auditor to draw attention to the difference between the Balance Sheet value of Goodwill and its market value. If such divergence between facts and figures is permissible with Goodwill, why is it not equally permissible with all other assets in a Balance Sheet? (*Chartered Accountants*.)

39. On the formation of a Limited Company to take over an established business it frequently happens that a considerable sum is paid for the Goodwill.

Give an instance where you would consider it necessary that yearly provision should be made out of profits to extinguish the asset, and a further instance where you would consider such a course unnecessary, and state your reasons. (*Chartered Accountants.*)

40. A public company was formed by the amalgamation of several businesses. Two years after its formation, in consequence of the fact that one of the businesses was unprofitable, an investigation was made into the books of that business for a period prior to its acquisition by the Company, with the result that they were found to be false and fraudulent. The vendor of that business, who was one of the Directors of the new Company, resigned his position on the Board, and in 1919 surrendered 5,000 shares in the Company of £1 each, fully paid, to a nominee of the Directors for the benefit of the Company. The assets of the business in question, which, with its Goodwill, were standing in the books of the new Company at cost, viz. £10,000, were sold in 1920 for £3,000. The surrendered shares were sold by the Company in 1921 at par.

How should these transactions be referred to in the Company's annual accounts in each of the three years? (*Chartered Accountants*.)

41. "Goodwill, £15,000" forms an item in the first Balance Sheet of a new Company submitted to you for audit.

Should you consider yourself under any obligation to test the approximate value of this asset?

State briefly what, in your opinion, your duties as auditor would consist of with respect to the item in question. (*Chartered Accountants.*)

42. A Limited Company was formed to acquire the business of an old-established private firm. The fixed assets were purchased by valuation. £30,000 was paid for the Goodwill, being three years' purchase of the average net profits of the three years immediately preceding the formation of the Company. The profits of the first three years of the Limited Company averaged £9,000 per annum. Some of the directors contended that the Goodwill had depreciated, and that the book value should be revised upon the basis of an average profit of £9,000 per annum, and the resulting depreciation charged to Profit and Loss Account prior to the payment of any further dividends.

The matter was referred to you as auditor to the Company. What advice should you offer? (*Chartered Accountants.*)

43. Goodwill for a large amount appears amongst the assets of the Barchester Brewery Co., Ltd., a company formed during the brewery "boom." The profits of the Company have gradually decreased during the past few years; and, in the years ended June 30, 1908 and 1909, while the dividend was paid on the Preference Shares, no profits were available for dividends on the Ordinary Shares. The balance at the credit of the Profit and Loss Account, for the year ended June 30, 1910, was sufficient (after satisfying the Preference Shareholders) to pay a dividend of 2½ % on the Ordinary Shares. The Directors were divided in opinion as to whether a dividend should be declared, or the amount taken to the credit of the Goodwill Account. As auditor to the Company, you were called in to advise the Directors. State briefly the views which you would have submitted to the Board. (*Chartered Accountants.*)

44. As auditor of the A B Manufacturing Company, Ltd., you are informed that the Company has agreed to purchase the C D Retail Co., Ltd., as from December 31, 19.., on the following terms:—

The A B Company is to discharge all the liabilities of the C D Company,

and to take over all the assets at the values as shown in the C D Company's Balance Sheet at December 31, 19... Shareholders in the vendor company are to receive an equivalent number of shares in the A B Company, plus £10,000 in cash.

The following was the position of the two Companies at December 31, 19.. :—

A B MANUFACTURING COMPANY, LTD

LIABILITIES.	£	ASSETS.	£
Nominal Capital	150,000	Debtors	45,000
		Premises	10,000
Subscribed Capital . ..	100,000	Plant and Machinery . ..	15,000
Creditors	7,000	Cash in hand and Bank..	2,000
Reserve Fund	10,000	Investments	10,000
Profit and Loss Account .	12,500	Bills Receivable	10,000
		Stock	37,500
	£129,500		£129,500

C D RETAIL COMPANY, LTD.

LIABILITIES.	£	ASSETS.	£
Subscribed Capital	25,000	Debtors	14,500
Creditors	2,500	Bank	500
General Reserve Account	3,000	Premises	5,500
Profit and Loss Account ..	2,000	Fixtures, etc.	2,000
		Stock	10,000
	£32,500		£32,500

You are requested to prepare a Balance Sheet, as on January 1st, following, embodying the above arrangements, assuming that the cash transactions do not take place till afterwards.

What recommendations would you, as auditor, make to the Directors of the A B Company with regard to the new state of affairs, dealing especially with Goodwill? (*Incorporated Accountants.*)

45. What is meant by the term "Depreciation"? Give three examples of its application. (*Chartered Accountants*)

46. Define the term "Depreciation" as applied to assets. How should the subject be dealt with in regard to the value of (1) Leases, (2) Machinery, (3) Stock? (*Central Association Accountants.*)

47. Is there any difference in the obligation to provide for depreciation on "Fixed" as compared with "Floating" assets? (*Royal Society Arts.*)

48. The following paragraph occurs in a Company's Annual Report: "Owing to the serious falling off in the profits of the Company, your Directors recommend that no depreciation be written off this year." Give your views on this policy (*Chartered Institute Secretaries.*)

49. Briefly describe three methods of providing for depreciation, and state which method you would apply to each of the under-mentioned assets, and why. Lease of factory (24 years unexpired). Printing machine (five years' expected "life"). Freehold building (in a good state of repair). (*Chartered Accountants*)

50. A Limited Company has for the past three years made a loss. No allowance has been made during that period for depreciation of Machinery and Plant. You are required to certify the Accounts for the last year. The Directors explain that no provision has been made for Depreciation because there were no profits, and that as no dividends had been declared it did not matter. Comment hereon. (*Central Association Accountants.*)

51. Briefly explain and contrast two different methods of providing for the depreciation on Machinery and Plant. Which method do you advocate, and why? (*Royal Society Arts.*)

52. In what way, in a well-conducted Company business, are Leasehold Properties, Patent Rights, and Fixed Plant and Machinery dealt with in the Company's books ? Under what circumstances, and to what extent, ought a Company, registered under the Companies Act, to provide a Reserve Fund ? (*London Chamber Commerce.*)

53. State shortly the most desirable methods of providing for the obsolescence of Plant and Machinery, and how it is possible to arrive at a reliable estimate of the provision which is necessary. (*Incorporated Accountants.*)

54. Define "wasting assets," and comment upon the treatment which they should receive in the books of a Limited Company, giving an illustration. (*Central Association Accountants.*)

55. State briefly the facts that would guide you in arriving at the proper amount of depreciation to provide for upon the Machinery and Plant used in a manufacturing business ; and set out the entries you would pass through the books to give effect to the decision arrived at. (*London Chamber Commerce.*)

56. The Directors of an undertaking, the capital of which is invested in patent rights and copyrights, instruct you to suggest to them the best way of dealing with the values of the assets in the books and accounts, and ask for your reasoned report on the question of depreciation as applied to this class of wasting asset ; especially they require to know whether they should have these assets valued, and how often, by authorities independent of the undertaking Draft your report. (*Incorporated Accountants.*)

57. By what method of depreciation should you recommend provision to be made for waste in connection with : (*a*) Copyrights ; (*b*) Horses and Carts ; (*c*) Exhaustion of Minerals ; (*d*) Dilapidations under a Lease ? (*Chartered Accountants.*)

58. Lay down some general rules with due regard to the amount of depreciation that should be allowed per annum in the case of (1) Buildings, (2) Fixed Plant, and (3) Machinery ; also (4) of Patents and (5) the amount that may have been paid for the Goodwill of a business. (*Chartered Accountants.*)

59. Illustrate the difference between depreciation at 6 % yearly on the original value of Plant and Machinery without deduction, and $7\frac{1}{2}$ % yearly on the value remaining after deduction of the previous year's charge, say, at the end of six years on £20,000. Which would you advise ? (*Chartered Accountants.*)

60. In preparing the Profit and Loss Account of a manufacturing firm, what different methods are there of providing for the waste of an asset owing (*a*) to wear and tear, as in the case of machinery ; or (*b*) effluxion of time, as in the case of a building erected upon leasehold land ?

What method do you favour for providing for such waste, and why ? State briefly what entries would be required to carry your suggestions into effect ? (*London Chamber Commerce.*)

61. Sometimes provision is made for depreciation of plant by writing off a fixed proportion of the original cost in each year, and sometimes by writing off in each year a fixed percentage of the balance of the account as it stood at the commencement of that year. Supposing that it is desired to write machinery which cost £1,000 down to (say) £600 at the end of the fifth year, state the amount that would be charged against each year's profits under each of these two systems. (*Chartered Institute Secretaries.*)

62. How should you deal in the books of a Trading Company with the premiums paid under a policy for leasehold redemption ? State what effect the maturity of the policy would have upon the Lease Account in the books of the Company. (*Chartered Accountants.*)

63. In auditing the accounts of a Steamship Company, state whether you consider depreciation is chargeable upon Prime Cost, or balance of cost of each ship, after working out depreciation on £100,000 both ways for fifteen years. Say depreciation is fixed at 5 % per annum. (*Chartered Accountants.*)

64. An Investment Company includes in its Balance Sheet : (*a*) Deben-

tures in Limited Companies; (*b*) Mortgages on Property; (*c*) Corporation Bonds; (*d*) Railway Stock. All are entered in the Balance Sheet at cost price. The market price of some of the shares is, at the date of the Balance Sheet, seriously below cost, other shares and stock have gone up in price; the property on which the mortgages were effected has depreciated in value, but there has been no reduction in the amount of the mortgages. The Company does not make a business of buying and selling shares, but holds the assets referred to as investments. Give your view of the proper method of dealing with the assets in the final accounts. (*Incorporated Accountants.*)

65. What are the uses of a Register of Plant, and upon what basis should Plant be depreciated? (*Incorporated Accountants.*)

66. How should investments in Government Securities, which have depreciated in value since the date of purchase, be shown in a Balance Sheet? (*Central Association Accountants.*)

67. The Turbine Steamer Company, Ltd., owns a fleet of fourteen steamers trading to the Eastern seas. These boats are at present insured in the ordinary way at Lloyd's; but the Company desires to effect its own insurance for the future. Explain briefly what steps should be taken to inaugurate an internal marine insurance fund, and state what entries would appear in the books and annual accounts of the Company when the fund was in operation. (*Royal Society Arts*)

68. State, shortly, what considerations would guide you in arriving at the depreciation to be written off the following assets: Fixed Plant and Machinery; Loose Plant and Tools; Leasehold Property, the lease having thirty years to run; Models and Patterns. (*Chartered Accountants.*)

69. The Pacific Trading Company, Ltd., owns a fleet of twenty steamers. The Company decides to institute an insurance fund for insuring its own fleet. What method would you advise the Directors to adopt, and how would the matter be dealt with in the accounts of the Company? (*Chartered Accountants.*)

70. Under what circumstances is it correct for a Limited Company owning steamships to make reserves for depreciation; and under what circumstances should an auditor object to the managing owner making such reserves? (*Chartered Accountants.*)

71. On January 1, 19.., A. R. Goodwin purchased a machine for £1,000. His engineer advised him that the machine would be useless for his purposes in four years, and that it would then realise £100 at scrap prices.

Give two methods of providing for the depreciation of this machine. (*London Chamber Commerce.*)

72. What points would you take into account in writing down Patents or Copyrights? (*Chartered Accountants.*)

73. The slag heap of the Weyside Blast Furnaces, Ltd., is gradually increasing, and already covers a considerable extent of ground. Under the terms of its lease, the Company is liable to reinstate the land to its original agricultural condition upon the expiration of the lease—fifteen years hence.

The Directors contend that the value of the slag is greater than the possible liability, and decline, therefore, to make any provision in the accounts

What are your views? What steps, if any, should you take as auditor to the Company? (*Chartered Accountants.*)

74. A lease of land was acquired by a Company at its incorporation on January 1, 1930. Depreciation has to be allowed for, and you ascertain that the lease was for twenty-one years from Christmas 1926. The manager says that, as it has seventeen years to run, he proposes to write off one-seventeenth of the cost every year; and the secretary urges that this is hard on the early years, and proposes that a Sinking Fund should be created to produce the total cost by seventeen annual instalments. What are your objections (if any) to either or both of these proposals? (*Chartered Accountants.*)

75. Auditing the yearly results of an Engineering Company, you find that the Machinery and Tools, which had been regularly depreciated, have

been valued by an independent valuer at a larger sum than book value. The Company has appreciated this item in the Balance Sheet by the increased value. To what account would you recommend the corresponding credit to go? (*Chartered Accountants*.)

76. A Firm possessing freehold property on which its premises are erected purchases for £1,000 from a Railway Company a lease of some adjoining land for the purposes of extending its premises. The lease has twenty years to run, and the ground rent is £50 per annum. The extension of premises costs £2,000, exclusive of the cost of the lease. How would you deal in the books of the Firm (*a*) with the land? (*b*) with the new buildings? (*Incorporated Accountants*.)

77. George and Hugh Dixon, who are equal partners, own the freehold of the factory in which their business is carried on. Owing to improved railway facilities in the neighbourhood in which the works are situated, property has increased in value. The factory cost £10,000, at which figure it stands as an asset in the books of the firm. A recent valuation values the property at £15,000, and the brothers Dixon ask you to record this new valuation in the books in place of the cost price.

Give the entries which would be necessary in order to carry out these instructions, and state your opinion as to the wisdom of the procedure. (*London Chamber Commerce*.)

78. Drouhins Limited purchased the lease of their works for £10,000 on January 1, 19... On the same date a leasehold redemption policy was taken out, in order to recoup the expenditure upon the expiration of the lease. How would you deal with the annual premiums in the Company's books? Show, by means of *pro-forma* entries, how you would adjust the accounts upon the maturity of the policy. (*Chartered Institute Secretaries*.)

79. The premises of a Trading Company are held on lease for thirty years. They were acquired at a premium and large sums have been expended on additions and improvements. In the first ten years considerable sums have been set aside in the accounts for leasehold redemption before disclosing to the shareholders the profits of each year, and the total amount so provided to December 31, 1931, is largely in excess of the amount necessary to write off the leasehold asset proportionately during the thirty years.

The eleventh year, 1932, is a bad year, the profits have declined, and to enable them to pay the customary dividend the Directors determine to make no provision out of the profits of that year for leasehold depreciation.

State what you would do as auditor, showing the form your action would take, and give the reasons for your procedure. (*Chartered Accountants*.)

80. What considerations should govern the amount to be provided (if any) for the depreciation of, or reserve on, the following assets appearing in a Balance Sheet: (1) Goodwill; (2) Leasehold Land and Works erected thereon; (3) Fixed Machinery and Plant, including engine power; (4) Loose Tools, (5) Book Debts; (6) Investments in gilt-edged and other securities; (7) Amount expended on partly completed contracts? (*Chartered Accountants*.)

81. An engineering firm owns its freehold buildings, erected many years ago, and containing a quantity of fixed machinery and plant. On examining the accounts on behalf of an incoming partner, you find that the Profit and Loss Accounts have never been charged with depreciation in respect of Buildings, Plant, or Machinery. What course would you recommend your client to allow you to adopt for the purpose of ascertaining whether the profits were such as to make the partnership desirable, and what course would you suggest should be adopted in future to ensure correct treatment of these items? (*Chartered Accountants*.)

82. A Company possessing a fleet of steamers charge an amount against their profits each year to cover depreciation on their fleet. State different ways in which the amount of that depreciation might be entered in the books and in the Balance Sheet; and which you consider the best, and for what reasons. (*Chartered Accountants*.)

83. In the case of a Publishing House with a large connection, upon what principle should the several copyrights owned by the house be valued

at the date when the accounts are presented to you for audit ? *(Chartered Accountants.)*

84. Soleil d'Or, Ltd., possessed leasehold works, the Ledger Account for which stood in the books as follows :—

LEASEHOLD WORKS.

		£			£
19...			19...		
Jan. 1.	To Cost of Lease ..	10,000	Dec. 31.	By Depreciation transferred to Profit and Loss Account	500
Dec. 31.	" Additions during year	1,400		" Balance carried down	11,278
	" Repairs during year	378			
		£11,778			£11,778

The lease was dated December 31st previous, and was for fifteen years. The lessees were liable for dilapidations

Do you approve of the above method of setting out the Company's position in regard to this lease ? If not, how should you amend it ? *(Chartered Institute Secretaries.)*

85. In closing the books of a firm of mechanical engineers which had been some years in existence and was well known, how would you deal with leasehold property held for a term of years and of special value to the firm, and what course would you take with respect to patent rights held by the firm ? *(Chartered Accountants.)*

86. On what principle should the following items of expenditure be treated by a Mining Company, (*a*) as a matter of law, (*b*) as a matter of sound finance ? (1) The cost of the leasehold mine referred to in the original prospectus, to acquire which the Company was floated. (2) Expenditure on buildings expected to last the life of the lease. (3) Expenditure on development. (4) Expenditure on winning the mineral. *(Chartered Accountants.)*

87. A financial company, of which you are auditor, is faced with heavy depreciation of its investments owing to the war, amounting to £40,000. The business, however, during the period under review has been successful, and has resulted in a profit of £25,000. Subject to your approval, the Directors propose to divide the profit by the declaration of a dividend which will absorb the whole of it. Give your views in a letter directed to the Board. *(Incorporated Accountants.)*

88. In auditing the accounts of a firm you come across the following facts :—

The firm has acquired land on a lease for thirty years, and has erected thereon a building costing £2,970. The firm lays before you two propositions, and asks your opinion thereon ; one, that they shall wipe out this expense by equal annual instalments of £99, that is one-thirtieth of £2,970, and the other that they shall debit the Trading Account with £193 4s. per annum, being the amount ascertained from Sinking Fund tables for the repayment of £2,970 in thirty years by way of annuity at 5 % per annum.

In the latter arrangement, nothing is credited to the Profit and Loss Account.

Give your reply, and make up a Leasehold Account for three years, showing what sums, in your opinion, should be charged during those years to the Trading Account, and what amount, if any, should be credited to the Profit and Loss Account. *(Incorporated Accountants.)*

89. A trading company possesses a leasehold warehouse. The lease has forty years to run from last Balance Sheet, when it stood at £20,000. The lease is valued at £25,000. No systematic treatment has been adopted, but considerable sums have been written off from time to time. Dividends are only payable out of profits. You are asked to decide between the following views : (*a*) Nothing need be written off because the property was acquired from the vendors under a contract, mentioned in the articles, which contain

no special provisions as to depreciation, and because the lease would now sell for what it stands or more. (*b*) The most convenient plan is to continue applying occasionally such profits as it is not desired to divide. (*c*) An equal fortieth part should be written off annually. (*d*) A Sinking Fund should be created and compounded so as to produce £20,000 in forty years. What do you recommend, and why? (*Chartered Accountants.*)

90. The following assets appeared in the Balance Sheet of a Limited Company. The Directors ask you to report whether the provisions made for depreciation are adequate.

				£	s.	d.
FREEHOLD LAND AND BUILDINGS AT COST				63,580	0	0
In 1876 the land cost £40,000 and the buildings cost £20,000. The balance represents the cost of additions to buildings since the above date.						
PATENT ACCOUNT.						
Balance as per last Balance Sheet	£9,876	0	0			
Less written off	2,000	0	0			
				7,876	0	0
£5,000 of this item represents the original purchase price of the patent, and the balance (£4,876) represents the cost of experiments. The patent was granted on January 1, 1924. The experience resulting from the experiments has rendered the original specification of little value.						
LOOSE TOOLS.						
Balance as per last Balance Sheet	£6,000	0	0			
Additions during the year	500	0	0			
	6,500	0	0			
Less Depreciation (10 %)	650	0	0			
				5,850	0	0
The great majority of these tools are made by the Company's staff. The Asset Account is debited with the cost of materials and labour. Depreciation at 10 % is written off the final balance of the account each year.						
PATTERNS.						
Balance as per last Balance Sheet	£4,500	0	0			
Additions during the year	500	0	0			
	5,000	0	0			
Less Depreciation (10 %)	500	0	0			
				4,500	0	0
These patterns are constructed of wood and are made by the Company's staff, the cost of materials and labour being debited to the Asset Account. Half the patterns are in constant use, the remainder being employed with varying degrees of frequency.						

Submit your report to the Directors and, if the information given above is inadequate, state in what directions you would require it to be amplified. (*Chartered Accountants.*)

91. A Company having a lease standing in their books at £5,000, decide to provide for depreciation by taking out a policy for leasehold redemption. How would you deal with the annual premiums in the books; and how would you adjust the accounts when the lease expires and the policy matures? (*Royal Society Arts.*)

92. Give a ruling of a Plant Ledger, or Register, suitable for use by a manufacturing firm owning various types of machinery.

Describe the advantages you claim for such a Register, particularly from your point of view as auditor to the firm. (*Chartered Accountants.*)

93. What is a Sinking Fund as distinguished from a Depreciation Fund? Show the necessity of each, and their mode of treatment in the books of a Corporation. (*Chartered Accountants.*)

94. Explain the difference between (*a*) Sinking Fund; (*b*) Reserve Fund; (*c*) Reserve Account. (*Lancashire and Cheshire Union.*)

95. Give definitions of, and differentiate, the following well-known terms: (*a*) Reserve; (*b*) Reserve Fund; and (*c*) Sinking Fund. In the case of a Limited Company, what would guide you in deciding as to whether an amount was a Reserve, or Reserve Fund? (*National Union Teachers.*)

96. What is the difference between a Sinking Fund to replace a wasting asset and one to repay a liability?

Illustrate your answer by showing the difference in effect at the end of five years in the following cases. (1) A Sinking Fund to replace, at the end of five years, a leasehold property valued at £6,000. (2) A Sinking Fund to repay £6,000 First Mortgage Debentures at the end of five years. (*Chartered Accountants.*)

97. State concisely what you understand by each of the following: Sinking Fund; Debenture Redemption Account; Capitalised Profits; Reserve Fund; Reserve Account. (*Incorporated Accountants.*)

98. What is the difference between a Sinking Fund for discharging a loan accumulated out of profits or from the rates of a municipality, as the case may be, and a Depreciation Fund built up in the same way? (*Chartered Accountants.*)

99. Enumerate a few assets, the wastage of which is, in your opinion, more suitably provided for by the creation of a Sinking Fund invested outside the business than by the ordinary methods and application of depreciation. (*Chartered Accountants.*)

100. When calculating the annual Sinking Fund to replace the cost of a lease, or other terminable benefit, why should compound interest be taken into account, thereby making the amounts carried to the fund in the earlier years comparatively small, and in the later years comparatively large, instead of setting aside equal annual sums? (*Chartered Accountants.*)

101. It is provided in a Company's prospectus that an annual sum shall be set aside out of profits to pay off debentures when due. How should the fund thus created be treated? What would be the nature of such a fund when all the debentures were paid off? Of what should it consist? What powers would the Directors then have over it? (*Chartered Accountants.*)

102. The value of a lease which has five years to run is £500. Show the working of a Sinking Fund on a 5 % basis in the books of the business, having regard to the fact that 0·180975 of a pound annually invested at compound interest will amount to £1 at the end of five years. (*Central Association Accountants*)

103. A Limited Company issued 500 5 % debentures of £100 each on January 1, 19.., at par. The debentures are repayable on January 1st, five years later.

Describe two methods of providing for the repayment of the issue, explain their respective advantages, and illustrate your answer by giving the entries necessary to record them in the books of the Company. (*London Chamber Commerce.*)

104. A Company issues, on December 31, 19.., £20,000 of 4 % debentures, which it is agreed shall be redeemed out of profits at the rate of £500 per annum. It is to be assumed that the reserve so created is invested without interval in 3 % stock at par, and all accretions which are received on January 1st and July 1st of each year are to be similarly invested. Allowing income tax at 1s. in the pound and the cost of making investments at 1 % on capital invested, write up the Debenture Redemption Account to December 31st, three years later. (*Incorporated Accountants.*)

105. A company having a lease standing in their books at £5,000, decide to provide for depreciation by taking out a policy for leasehold redemption. How would you deal with the annual premiums in the books; and how would you adjust the accounts when the lease expires and the policy matures? (*Royal Society Arts.*)

106. A Trading Company takes out a Capital Redemption Policy with an insurance company to provide for a wasting asset, paying £70 per annum premium. The premium is to be provided out of revenue. Give examples showing the entries to be made in the books of the trading company (1) annually, and (2) upon payment of the capital sum by the insurance company. (*Chartered Accountants.*)

107. It is claimed by some Corporations that a Sinking Fund for the redemption of assets renders a provision for depreciation unnecessary. What do you think? Give your reasons. (*Chartered Accountants.*)

108. A Limited Company, of which you are auditor, issued 500 debentures of £100 each on January 1, 19.. The debentures carry 6 % interest, and are repayable at 103 in 5 years.

The Directors ask your advice as to the best method of providing for the due repayment of the issue Describe two methods, explain their respective advantages, and state what your requirements as auditor would be when verifying the book-keeping records. (*Chartered Accountants.*)

109. The Directors of a Printing Company purchased three monotype machines for £5,000, and created a Sinking Fund with the object of replacing the machines at the end of ten years—the termination of their useful life. The annual instalments for the service of the Sinking Fund were invested in gilt-edged securities. Some of the Directors contended that, in addition to this provision, an annual charge should be made against revenue for depreciation. Being unable to agree, the Board seek your advice as auditor to the Company, and ask you to explain the effect which this additional provision would have upon the Balance Sheet of the Company at the end of the ten years.

Submit a concise report in response to this request. (*Chartered Accountants.*)

110. An Insurance Company purchased 200 £100 Arcadia Government 6 % Gold Bonds, repayable at par in ten years from the date of purchase. The bonds were purchased at 110 and the expenses amounted to £103. As Auditor to the Company, you are asked to advise whether it is necessary to make any provision for the deficiency which will arise when the bonds are repaid, and, if so, what form such provision should take. What advice should you offer? (*Chartered Accountants.*)

111. Do you consider there is any distinction between "Reserve Fund" and "Reserve Account"? What are your reasons? (*Chartered Accountants*)

112. It is held by some authorities that a Reserve Fund is of no value unless invested in so-called "gilt-edged securities." What is your opinion of this principle as applied to (*a*) financial companies, (*b*) trading concerns? (*Incorporated Accountants.*)

113. State how you would form an opinion as to the sufficiency of the amount standing to the credit of a Reserve Account for Bad Debts in the Balance Sheet of a Company to which you are auditor. (*Central Association Accountants.*)

114. What is a "Suspense Account"?

Give a few examples (*a*) of legitimate purposes for which such an account may be used; (*b*) of error of which the abuse of a Suspense Account may cover. (*London Chamber Commerce.*)

115 Premium on shares of a Company having been carried to a Reserve Fund, a portion in a bad year's trading is transferred to Profit and Loss Account in order to pay its Preference dividend. Would you, as auditor, see any objection to this course, and what would you consider your duty in the matter? (*Chartered Accountants.*)

116. Ought the amounts put aside by Directors, out of profits, to the credit of a "Reserve Fund" to be necessarily invested in interest-bearing securities? If it be so invested, to what account would you credit the interest received on the investments? (*Chartered Accountants.*)

117. The Articles of Association of a Company provide that profits in excess of 5 % on the Share Capital shall be applied in payment off of

the debentures. Do any observations occur to you upon the working out of this provision? (*Chartered Accountants*.)

118. Some classes of Companies (e g Banks and Insurance Offices) often have a very large uncalled Capital. What are the advantages and disadvantages of this arrangement? (*Royal Society Arts.*)

119. The Directors of a Limited Company to which you have been appointed Auditor have decided to reduce the amount standing to the credit of Reserve for Bad Debts, and to credit Profit and Loss Account with the amount of the reduction. Would you sanction the entry? Comment thereon. (*Central Association Accountants*.)

120. What is a Secret Reserve? Enumerate two methods employed by bankers in order to create Secret Reserves, and criticise the practice from the point of view of a customer of the Bank. (*Chartered Institute Secretaries.*)

121. Give two illustrations showing how a Limited Company can create a Secret Reserve. In your opinion, is the creation of reserves of this nature justifiable? (*Royal Society Arts.*)

122. What is the duty of an auditor to the shareholders of a Limited Liability Company in which a Secret Reserve Fund has been created? (*Incorporated Accountants.*)

123. State briefly the arguments for and against reserves not disclosed or referred to in accounts issued to shareholders of a Bank. (*Chartered Accountants.*)

124. A Limited Company has among its assets a book debt of £1,000 of doubtful value. A reserve of £500 has been made against it. How would you, in preparing a Balance Sheet, deal with these items?

Give reasons for your answers (*Chartered Accountants.*)

125. Explain what is meant by a "Suspense Account" Give three instances of items carried to "Suspense," and explain how you expect them respectively to be removed out of "Suspense." (*Chartered Accountants.*)

126. In the event of the Directors of a Company having the freehold or leasehold property revalued, and a surplus over the amount such assets previously stood at in the books be the result, how would you in the Balance Sheet, or Profit and Loss Account, treat such surplus, and for what purposes can it be used in the absence of any special power or authority? (*Chartered Accountants.*)

127. The Hyacinth Soap Co., Ltd., has a Reserve for Bad Debts on January 1, 19.., of £5,000. On December 31, 19.., the Directors decide that the Reserve Account shall stand at £4,600. During the year 19.. Bad Debts have been incurred amounting to £521 10s, and it is agreed that this amount shall be written off Show the different ways in which the adjustments can be made and comment thereon. (*Central Association Accountants*.)

128. The Reserve Fund accumulated by Soleil d'Or, Ltd.—an exploring syndicate—amounted, as on December 31, 19.., to £10,000, and was represented by gilt-edged securities which had cost £10,021 7s. 6d. The mean market price of these investments on the above date was £8,989 18s. 6d. Do these facts call for any adjustments in the accounts of the Syndicate for the year ended December 31, 19..? Give reasons for your answer. (*Royal Society Arts*.)

129. You, as Secretary of the National Industries Co., Ltd., receive from Mr. T. Head, a shareholder in the Company, the following letter: "I have received from the National Industries Co., Ltd., a copy of its Balance Sheet of December 31st last. There is one point on which I am not quite clear, and that is the meaning of 'Reserve Fund, £50,000' on the Liabilities side of the Balance Sheet. It seems to me to be on the wrong side, for I cannot see how a fund can be a liability. I shall be much obliged if you will explain the matter and tell me where the 'fund' is, and why it is not invested in outside securities."

Write an answer to this letter. The Reserve Fund in question has been accumulated out of trading profits. What would you substitute for the words "Reserve Fund" so as to avoid the above misunderstanding? (*Chartered Accountants*.)

130. On December 31, 1909, the City Trading Co., Ltd., had a Debenture Reserve Fund of £50,000, represented by investments amounting to £59,000 $2\frac{1}{2}$ % Consols. The Company also had a balance in the bank on Current Account at June 30, 1910, of £6,000. The debentures, amounting to £50,000, were paid off on June 30, 1910. To provide for this the Consols were realised at 83 net, and the proceeds paid into the bank on June 30, 1910. Record the above transactions in the books of the Company, and show the Ledger accounts affected (*Chartered Accountants.*)

131. A large Engineering Company, which has for many years regularly depreciated its Fixed Plant and Machinery and its Loose Plant and Tools, decides to have them valued by an independent valuer as on December 31, 19.., on which date they stood in the books of the Company at the following values:—

Fixed Plant and Machinery	£16,252	8	9
Loose Plant and Tools	5,368	10	3

The valuations were made, and resulted as follows:—

Fixed Plant and Machinery	£17,329	16	4
Loose Plant and Tools	6,035	11	6

The Directors decide to increase the book values to the values shown by the new valuation.

How do you consider this should be effected? Give your reasons, and draft the necessary Journal entries. (*Chartered Accountants.*)

132. Under its Debenture Trust Deed a Company is to set aside £2,000 annually out of its trading towards the ultimate redemption of the debentures, without any special directions as to the disposal of the amount. A sum of £20,000 has been accumulated in this way and stands at the credit of a Reserve Account in the books: the Directors propose to close that account, and to write the £20,000 off the cost of certain new works. Do you, as auditor, see any objection to this proceeding? Give reasons for your answer. (*Chartered Accountants.*)

133. Explain (*a*) the reason for creating, and (*b*) the method of operating the undermentioned reserves: (*a*) Forged Transfers Reserve; (*b*) Marine and Fire Insurance Reserve; (*c*) Dilapidations Reserve; (*d*) Rebate on Bills not due (Bank). (*Chartered Accountants.*)

CHAPTER IV

Joint Stock Companies.—I

Legal and Statistical

[Note.—*All references throughout this and the three chapters following are to the Companies Act*, 1929, *unless otherwise stated.*]

The aggregate capital invested in the 108,698 private and public limited companies, registered in London and Edinburgh on December 31, 1929, amounted to £5,200,126,098. This stupendous total affords conclusive proof of the advantages conferred upon the private investor and the business community generally by the adoption of the principle of limited liability. The limitation of the liability of members is doubtless the most popular of these advantages, but there are others of great value. Incorporation facilitates the obtaining of fresh capital, and the power of borrowing, while at the same time it enables extensions and amalgamations to be carried out expeditiously. Employees of limited companies can be given an interest in the business appropriate to their status on the staff. There is no limit to the number of members that can share in the proprietorship, and, in the event of a member's death, the continuation of the business, and the disposal of the deceased member's interest in it, usually present little difficulty.

Methods of Incorporation.—Companies may be incorporated in one of three ways, viz. by:—

(*a*) *Royal Charter.*—This method is seldom adopted except in the case of companies formed for Colonial development.

(*b*) *Special Act of Parliament.*—Examples of this mode are afforded by the Acts under which British railways work.

(*c*) *The Companies Act*, 1929.—The vast majority of companies are brought into existence and controlled under this Act, which received the Royal Assent on May 10, 1929, and came into force on November 1, 1929. This Act repealed and re-enacted the various statutes, comprising five different Acts, known as *The Companies Acts*, 1908–17 and the *Companies Act*, 1928. It consolidated the provisions of those Acts, effected some minor alterations in them, and embodied some small additions. With the exception of two sections, the *Companies Act*, 1928, never came into separate operation, it being merely an amending Act passed preparatory to consolidation, owing to the large number of

alterations in the law relating to companies necessitated by modern developments.

Kinds of Joint Stock Companies.—There are three classes of joint-stock companies, viz.:—

(*a*) Companies limited by *shares*
(*b*) Companies limited by *guarantee.*
(*c*) Companies the liability of whose members is *unlimited.*

In class (*b*) the liability of the members is limited to the definite amount which each member undertakes to contribute to the assets in the event of liquidation, while he is a member, or within one year of his ceasing to be a member (S. 2). In class (*c*) no limit is attached to the liability of the members. But both these classes (*b*) and (*c*) are so seldom met with that no further consideration will be given to them here In this and the following chapters we shall consider the formation, administration, and liquidation of class (*a*), companies limited by shares.

General Remarks.—The accurate preparation of the statistical books and returns of a limited company, like the accurate preparation of executorship or partnership accounts, is not possible without an adequate knowledge of the law affecting these matters. For the professional accountancy examinations, Company Law is one of the subjects scheduled. The present chapter, therefore, deals with statistical and legal matters. Company accounting proper and liquidation are reserved for succeeding chapters.

The book-keeping system suitable for the ordinary transactions of a company differs in no way from that in daily commerical use. The requirements of the Act, and the difference between the character of the proprietorship of a limited company and that of a private partnership, do, however, necessitate the use of special books of record. But these special books, in which are recorded, from a different point of view, some of the transactions appearing in the financial books, do not enter into the "balance" of the financial books. The student will find the more elementary requirements of limited companies in these matters fully dealt with in the author's *Book-keeping and Accounts*, and *Higher Book-keeping and Accounts*.

The Prospectus.

After the formalities incidental to registration have been carried out, the first step to be undertaken by a company proposing to issue its shares for public subscription is to prepare a prospectus. A prospectus is defined in S. 380 as "any prospectus, notice, circular, advertisement or other invitation offering to the public for subscription or purchase any shares or debentures of a company." The Act does not define what constitutes an "invitation to the public"

Sherwell v. *Combined Incandescent Mantles Syndicate*, [1907] W.N. 110, decided that an offer to the public meant one which was contained in some form of advertisement or invitation to

the general public. A circular issued to creditors regarding a proposed company is not a "prospectus" in this connection. Neither is an invitation to existing members or debenture-holders to subscribe for shares in or debentures of the company a prospectus, whether or not the circular includes a letter of renunciation [S. 35 (5)].

The form of prospectus usually adopted is amply illustrated in the advertisement columns of the daily Press. First is given the amount of the capital and the terms on which it is offered. This is followed by a description of the property to be acquired: the reason for the conversion of the business into a company, or the objects for which the company has been formed; and an estimate of the financial prospects, supported by a certificate of the company's auditors, or, if the company is an existing company or is about to acquire a business, by a professional accountant's certificate of the past profits earned and dividends paid by the undertaking, or by the business to be taken over, as the case may be (see p. 123). This certificate must cover at least three years or such less period as business has been carried on, and must state separately the profits of each year. The accountant's certificate sometimes gives, also, the figures at which the assets to be acquired stood in the books of the vendor, but it is preferable, and more usual, to include in the prospectus expert valuations of any such assets. Directors' estimates of probable dividends, based, if possible, on the certified profits of past years, usually follow the reports and certificates of the experts.

Considerable responsibility attaches to those who issue a prospectus. The prospectus must contain a full and accurate disclosure of the facts. Fraudulent statements render those responsible for the issue of the prospectus liable to an action either for (*a*) damages or (*b*) rescission. Untrue statements which are not fraudulent are ground for (*a*) rescission, so far as the company is concerned, or, in some cases, for (*b*) an action for compensation against the directors and promoters under S. 37 of the Act.

Shareholders will succeed in an application to rescind an allotment of shares to them if they can show that the prospectus contained material omissions or misrepresentations by which they were led to apply for the shares. But action must be taken promptly, or the right of rescission will be lost. In any case the supervention of winding-up proceedings annuls the right to rescind.

In *Adams* v *Thrift*, [1915] 2 Ch. 21, a director was held liable for misrepresentations contained in the prospectus which he believed to be true on the uncorroborated statements of the vendor.

Every prospectus issued publicly must bear a date, which is presumed to be the date of its publication; and a copy signed by all the directors, or their agents, must be delivered to the Registrar of Companies for registration prior to its issue; or, if filed after the date it bears, the prospectus must be accompanied by a letter stating that it has not been issued. The fact that due registration has been effected must be stated on the face of the prospectus. The prospectus is frequently registered with the Memorandum of

Association and the other documents required to register the Company. Prior to registration of the Company, careful search of the *Companies' Index* at Somerset House must be made, to ensure that the name of the company is registrable (see p. 131). In practice, a letter is usually sent to the Registrar asking him if the name is available.

Abbreviated Prospectuses.—Not infrequently abbreviated prospectuses appear in the Press with a note attached to the effect that applications for shares will be accepted only on the basis of the full prospectus, copies of which can be obtained at addresses stated. Probably these abbreviated prospectuses do not actually evade the statute, but, where important matter is omitted, they do undoubtedly defeat, to that extent, the object of the statute, which permits only the contents of the Memorandum to be omitted in a prospectus published in a newspaper.

Statutory Requirements.*—Prospectuses differ in form. A few of the requirements of the Fourth Schedule which sets out the statutory requirements may, however, be stated briefly:—

(1) Except in the case of newspaper advertisements, the prospectus must give the Memorandum of Association and the names, descriptions, and addresses of the signatories and their holdings.

(2) The names, descriptions, and addresses of the directors or proposed directors, the share qualification required, and the remuneration provided by the Articles.

[By S. 140.—(1) A person shall not be capable of being appointed director of a company by the articles, and shall not be named as a director or proposed director of a company in a prospectus issued by or on behalf of the company, or as proposed director of an intended company in a prospectus issued in relation to that intended company, or in a statement in lieu of prospectus delivered to the registrar by or on behalf of a company, unless, before the registration of the articles or the publication of the prospectus, or the delivery of the statement in lieu of prospectus, as the case may be, he has by himself or by his agent authorised in writing:—

(*a*) signed and delivered to the registrar of companies for registration a consent in writing to act as such director; and

(*b*) either—

(i) signed the memorandum for a number of shares not less than his qualification, if any; or

(ii) taken from the company and paid or agreed to pay for his qualification shares, if any; or

(iii) signed and delivered to the registrar for registration an undertaking in writing to take from the company and pay for his qualification shares, if any; or

(iv) made and delivered to the registrar for registration

* It should be noted that these requirements do not apply to private companies.

a statutory declaration to the effect that a number of shares, not less than his qualification, if any, are registered in his name.

(2) Where a person has signed and delivered as aforesaid an undertaking to take and pay for his qualification shares, he shall, as regards those shares, be in the same position as if he had signed the memorandum for that number of shares

(3) On the application for registration of the memorandum and articles of a company the applicant shall deliver to the registrar a list of the persons who have consented to be directors of the company, and, if this list contains the name of any person who has not so consented, the applicant shall be liable to a fine not exceeding fifty pounds.

(4) This section shall not apply to—

(*a*) a company not having a share capital; or

(*b*) a private company; or

(*c*) a company which was a private company before becoming a public company; or

(*d*) a prospectus issued by or on behalf of a company after the expiration of one year from the date on which the company was entitled to commence business.

The undertaking required by S. 140 s.-s. i (*b*) (iii) is commonly in the following form:—

RAYON D'OR, LIMITED.

I, the undersigned, of *Spencer House, South Place, London, E.C.*, hereby undertake and agree to take from the said Company and to pay for shares of the Company of the nominal value of .... pounds, being the amount fixed by the Articles of Association of the Company as the qualification of a Director of the Company.

A. Checker.

Dated the *3rd day of November*, 19...
Signed by the said *A. Checker*,
in the presence of *B. Boyn*,
135 *Aldgate, London, E.C.*

Qualification shares must be taken up within two months of a director's appointment, otherwise the appointment is void. It is a breach of trust for a director to accept his qualification shares as a gift from the promoter of the company, and, in the event of liquidation, he is liable for the amount of the shares so obtained.]

(3) The names and addresses of the auditors (if any).

(4) Particulars of any Founders, Management, or Deferred shares.

(5) The *minimum subscription*, i.e. (i) the amount which, in the opinion of the directors, must be raised by the issue of the shares offered to the public for subscription in order to provide

the sums, or if any part thereof is to be defrayed in any other manner, the balance of the sums, required to be provided in respect of each of the following matters:—

(a) the purchase price of any property purchased or to be purchased which is to be defrayed in whole or in part out of the proceeds of the issue;

(b) any preliminary expenses payable by the company, and any commission so payable to any person in consideration of his agreeing to subscribe for, or of his procuring or agreeing to procure subscriptions for, any shares in the company;

(c) the repayment of any moneys borrowed by the company in respect of any of the foregoing matters;

(d) working capital; and

(ii) the amounts to be provided in respect of the matters aforesaid otherwise than out of the proceeds of the issue and the sources out of which those amounts are to be provided.

[The minimum must be a fixed amount, e g. £1,000, and not merely a percentage of the amount offered for subscription. Shares which have been underwritten may be included as "subscribed" in this connection, if the Articles permit underwriting, and the underwriting terms are disclosed in the prospectus. But shares issued otherwise than as payable in cash may not be included. If the minimum subscription is not subscribed and the amount due on application (which must not be less than 5 % of the value of each share) is not paid to and received by the company within forty days after the prospectus was first issued, then the directors may not go to allotment, as they cannot make the necessary declaration or obtain the certificate entitling them to commence business, and must therefore return all application money. If it is not returned within forty-eight days of the issue of the prospectus, the directors become personally liable for its repayment, with interest at 5 %, provided that a director shall not be liable if he proves that the default in the repayment of the money was not due to any misconduct or negligence on his part [S. 39 (4)]. The directors must then seriously consider the position and decide whether the company can raise capital in some other manner, or they may decide that the business may be commenced on a lesser scale, with a smaller minimum subscription, in which case a new prospectus must be issued and registered with the Registrar, together with a statement that no allotment has been made and all subscription moneys have been returned.]

(6) Particulars of the shares or debentures issued as fully or partly paid otherwise than in cash.

(7) Details of the amounts payable on application and allotment.

(8) Names and addresses of the vendors in cases where property is acquired by the company, the amount of the purchase

money, the method of payment, and, separately stated, the amount (if any) payable for goodwill.

(9) Particulars of underwriting and other commissions payable for placing capital

(10) An estimate of the amount of the preliminary expenses.

(11) Particulars of any payments made to the promoter, and the consideration received therefor.

(12) Particulars of all material contracts, together with the times when, and the places at which, the contracts may be inspected.

[Contracts entered into more than two years prior to the date of the prospectus and ordinary trade contracts need not be disclosed. Contracts set out in the prospectus may be amended with the consent of the statutory meeting.]

(13) Whether any of the directors are interested in the formation of the company, and, if so, the extent and nature of the interest.

(14) Where the shares are of more than one class, the rights of voting conferred by the several classes of shares.

(15) (i) A report by the auditors of the company with respect to the profits of the company in respect of each of the three * financial years † immediately preceding the issue of the prospectus, and with respect to the rates of the dividends, if any, paid by the company in respect of each class of shares in the company in respect of each of the said three * years, giving particulars of each such class of shares on which such dividends have been paid and particulars of the cases in which no dividends have been paid in respect of any class of shares in respect of any of those years, and, if no accounts have been made up in respect of any part of the period of three * years ending on a date three months before the issue of the prospectus, containing a statement of that fact.

(ii) If the proceeds, or any part of the proceeds, of the issue of the shares or debentures are or is to be applied directly or indirectly in the purchase of any business, a report made by accountants who shall be named in the prospectus upon the profits of the business in respect of each of the three * financial years † immediately preceding the issue of the prospectus.

By S. 35 (2) any condition inserted in the prospectus purporting to bind applicants for shares in/or debentures of a company to waive their rights to have these statutory requirements complied with is void.

Offers for Sale.—Where a company allots or agrees to allot any shares in or debentures of the company with a view to all or any of those shares or debentures being offered for sale to the

[*Continued on page 126*

* If the business has not been carried on for three years, then the accounts for the one or the two years for which it has been carried on must be substituted for these references.

† If any account has been made up for a greater or less period than a year, such period is deemed the financial year.

No of Company ....

Form No. 55.

A 5s. Companies Registration Fee Stamp must be *impressed* here.

Form of Statement in lieu of Prospectus to be delivered to Registrar by a Company which does not issue a Prospectus, or which does not go to allotment on a Prospectus issued.

THE COMPANIES ACT, 1929

STATEMENT IN LIEU OF PROSPECTUS, DELIVERED FOR REGISTRATION BY

____

____ **Limited.**

(*Pursuant to Section* 40 *of the Companies Act*, 1929.)

The nominal share capital of the Company	£
Divided into	Shares of £ each. " " " "
Amount (if any) of above capital which consists of redeemable preference shares	Shares of £ each.
The date on or before which these shares are, or are liable, to be redeemed	
Names, descriptions and addresses of directors or proposed directors ..	
If the share capital of the Company is divided into different classes of shares, the right of voting at meetings of the Company conferred by, and the rights in respect of capital and dividends attached to, the several classes of shares respectively.	
Number and amount of shares and debentures agreed to be issued as fully or partly paid up otherwise than in cash	1. Shares of £ fully paid. 2. Shares upon which £ per share credited as paid. 3. Debentures £
The consideration for the intended issue of those shares and debentures	4. Consideration.
Names and addresses of vendors of property purchased or acquired, or proposed to be purchased or acquired by the Company..	
Amount (in cash, shares, or debentures) payable to each separate vendor.	
Amount (if any) paid or payable (in cash or shares or debentures) for any such property, specifying amount (if any) paid or payable for goodwill	Total purchase price £ Cash .... £ Shares .... £ Debentures..... £ Goodwill ...... £

Amount (if any) paid or payable as commission for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares or debentures in the Company; or	Amount paid payable.
Rate of the commission	Rate per cent.
The number of shares (if any) which persons have agreed for a commission to subscribe absolutely.	
Estimated amount of preliminary expenses	£
Amount paid or intended to be paid to any promoter	Name of promoter Amount £
Consideration for the payment ..	Consideration:—
Dates of, and parties to, every material contract (other than contracts entered into in the ordinary course of the business intended to be carried on by the Company or entered into more than two years before the delivery of this statement)	
Time and place at which the contracts or copies thereof may be inspected	
Names and addresses of the Auditors of the Company (if any) ..	
Full particulars of the nature and extent of the interest of every director in the promotion of or in the property proposed to be acquired by the Company, or, where the interest of such a director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him, or to the firm in cash or shares, or otherwise, by any person either to induce him to become, or to qualify him as, a director, or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the Company	
If it is proposed to acquire any business, the amount, as certified by the persons by whom the accounts of the business have been audited, of the net profits of the business in respect of each of the three financial years immediately preceding the date of this statement provided that in the case of a business which has been carried on for less than three years and the accounts of which have only been made up in respect of two years or one year the above requirement shall have effect as if references to two years or one year,	

as the case may be, were substituted for references to three years, and in any such case the statement shall say how long the business to be acquired has been carried on.

Signatures of the persons above-named as directors or proposed directors, or of their agents authorised in writing.	

Dated.......... day of.. .... 19. .

NOTE—In this Form the expression "vendor" includes a vendor as defined in Part III of the Fourth Schedule to the Companies Act, 1929, and the expression "financial year" has the meaning assigned to it in that Part of the said Schedule.

[*Continued from page* 123.

public, any document by which the offer for sale to the public is made shall for all purposes be deemed to be a prospectus issued by the company, and all the statutory requirements applicable to a prospectus apply to such an offer for sale. There is a presumption of the allotment having been made with a view to an offer to the public if the offer is made within six months after the allotment or agreement to allot, or if on the date when the offer is made the whole consideration to be received by the company in respect of the shares or debentures has not been so received. The persons making the offer have the same liability as persons named in a prospectus as directors. The consideration receivable by the company for the shares or debentures to which the offer relates and the place and time at which the contract under which they have been or are to be allotted may be inspected, must be stated in the offer for sale (S. 38).

Statements in Lieu of Prospectus.—Every public company which does not issue a prospectus must (S. 40) file with the Registrar a "Statement in Lieu of a Prospectus." This statement must be signed by all the directors. The particulars required in this document, as will be seen by reference to pp. 124–126, follow very closely those required in the ordinary prospectus, e.g. the amount of the nominal capital; its subdivision; the names and addresses of the directors; particulars of shares or debentures to be issued as fully paid; the names of the vendors, and the amounts payable to them; an estimate of the preliminary expenses, reports as to profits (but not dividends), etc. Any allotment of shares made before this statement has been filed is voidable (S. 41).

UNDERWRITING.

Very few public issues are now made unless underwriting of all, or part of the capital offered has been effected. An *underwriter*

is one who agrees to take up the whole or part of such portion of a share issue as may not be applied for by the public. S. 43 recognises the function of the underwriter, and the payment of his commission, conditionally upon sanction by the Articles of Association, and disclosure in the prospectus or statement in lieu thereof, or in a statement in prescribed form signed in like manner as a statement in lieu of prospectus, and registered before the payment of the commission. A financial house which has entered into an underwriting contract usually divides and sub-underwrites the risk with others (see below). The following may be taken as a typical example of underwriting procedure.

A Typical Example.—A financial house underwrites the whole of an issue of 50,000 Ordinary shares, and agrees to pay the deposit due thereon at a fixed time on the day the public issue of the shares is advertised. Prior to the day of public issue, the house obtains as many sub-underwriting contracts as possible, collects the application moneys due thereon, and deposits both with the company. The house is thus relieved to the extent of these contracts, say, 30,000 shares, and applies for the balance of 20,000 shares only. No shares are actually allotted to the house while the subscription list remains open. If the public subscribes for the whole issue, the house is entirely relieved of its obligation, but, if part only of the issue is publicly subscribed for, it is responsible for the balance. It is responsible *pro rata*. Thus, if the share issue was £100,000, and the house underwrote £50,000, and the public subscription aggregated £80,000, then the house would be relieved to the extent of £40,000, and would be liable to subscribe for £10,000.

Underwriting Commission.—Very frequently, the underwriting house undertakes to advertise the issue, and is paid an agreed sum to cover the cost of advertising, and remuneration for its services. The rates of commission paid for underwriting vary with the nature of the risk and the state of the money market, and may range from 1 % to 10 %. The amount must not exceed 10 % of the issue price of the shares or the lower amount or rate authorised by the Articles [S. 43 (1) (b)]. The rate of commission on the share issue of a sound commercial undertaking would be round about 5 %, but a first-class municipal issue would probably be underwritten at from 1 % to 2 %. Sometimes the commission is augmented by a bonus in the form of shares.

Sub-Underwriting.—The underwriting house may sub-underwrite the whole of the risk, but more frequently it reserves a portion of the underwriting for itself. This sub-underwriting is effected at a rate as much below the contract rate of commission payable on the whole as possible, say, 2 % less in the case of a commercial issue. In addition to the sub-underwriting commission, an *Overriding Commission* is frequently offered to financial agents and others for placing blocks of the underwriting with their clients. The rate of this commission varies. It would be from 1 % to 2½ % in the case of a good commercial issue. All commission

would be paid to the underwriting house, who would adjust matters with the sub-underwriters in due course.

Illustration.—Busheys, Limited, issue 50,000 new shares of £1 each, and enter into a contract with Walter Watford, who underwrites the whole issue at 4 %, with an over-riding commission of 1 % Watford obtains sub-underwriting contracts from K. Langley and P. Pinner for 20,000 and 10,000 shares respectively. In due course the Company pays £2,500 to Watford, who apportions the amount as follows:—

		Shares.	Commission. £	s.	d.
W. Watford underwrites		50,000			
Less sub-writing—					
K. Langley	20,000				
P. Pinner	10,000				
		30,000 at 1 %	300	0	0
		20,000 at 4 % and 1 %	1,000	0	0
			1,300	0	0
K. Langley		20,000 at 4 %	800	0	0
P. Pinner		10,000 at 4 %	400	0	0
		50,000	£2,500	0	0

Firm Underwriting.—When an underwriter desires to retain the whole, or a part, of the shares he underwrites as an investment, or for subsequent re-sale, a clause is added to the contract stating the proportion of the risk he agrees to take *firm*. The number of shares covered by this firm underwriting clause are, in due course, allotted to him irrespective of the extent to which the public has come forward in relief of the underwriter. In some cases a portion of the public issue is placed " firm " at a fixed rate of commission, no relief being granted for applications made by the public. It is a frequent practice to grant options to underwriters to subscribe for shares at par within a defined period.

The practice of firm underwriting, with its ramifications, tends to complicate the apportionment of the liability of the underwriters when a public issue is not fully subscribed. For this reason it is essential that the company accountant should possess adequate knowledge of the principles of underwriting, otherwise he will be unable to prepare accurate lists of the shares applied for, or to apportion correctly the underwriter's liability. A common form of underwriting letter is given below. The accountant should note that by S. 108 (3), (*f*) the total sums paid as commission in respect of any shares or debentures must be set out in the Annual Return. So much of such commission as has not been written off must be stated in every balance sheet of the company (S. 44).

Underwriting Letter.

RAYON D'OR, LIMITED.

ISSUE OF £50,000 IN ORDINARY SHARES OF £1 EACH.

To THE FLOTATIONS SYNDICATE, LTD.,
365 FINSBURY CIRCUS, LONDON, E.C.

In consideration of a commission of 5 per cent I/We agree, when called upon by you, to subscribe for, and accept allotment of, ... shares of the above issue, which is to be offered for public subscription at par in accordance with the terms of the prospectus of the Company as finally agreed and published.

I/We undertake, before 2 o'clock on the first day on which such prospectus is published, to send in an application in proper form for the above number of shares, together with the amount due upon application, and, in due course, to pay the balance due upon such shares according to the terms and conditions of the Company's prospectus.

This undertaking is conditional upon the understanding that all shares applied for by the Public shall go in relief *pro rata* of the above number of shares subscribed for by me/us.

The agreed commission of 5 per cent upon the nominal amount of the shares hereby underwritten is to be paid to me/us within 14 days after allotment.

This agreement is not revocable by me/us before the ...... day of .. .. 19.., and, in case of need, is your authority for making application in my/our name for the above number of shares at the issue price, and for making the several payments in respect thereof on my/our behalf I/We hereby indemnify you against any loss incurred through my/our default in carrying out the above undertaking.

Kindly advise me/us of your acceptance of this agreement.

Yours truly,

(*Name*) ....

(*Address*)..............................

(*Date*)..................

Please note that I/We desire to take .... of the above shares firm.

(*Name*) ....

(*Address*) ....

We accept the above agreement

(*Signature*) ....

NOTE —A duplicate of the agreement will be signed on behalf of the Syndicate and sent to the underwriters. Sometimes a clause is inserted stating the minimum number of shares which must be underwritten prior to the public issue

Brokerage.—It is usual when making a public issue of shares to offer a brokerage to stockbrokers and other agents, as an inducement to them to invite, and secure, applications for shares from their clients. Every company has power to pay brokerage (see judgments in the case of *Metropolitan Coal Consumers' Association* v. *Scrimgeour*, [1895] 2 Q.B. 604, where the conditions and limits of brokerage are stated), whereas underwriting commission can only be paid legally in the circumstances mentioned above. The amount of any brokerage which it is proposed to pay is usually mentioned in the prospectus, but this is not essential, as S. 43, which deals with commission, does not affect the company's right to pay brokerage. Brokerage is quite distinct from underwriting commission, and must not be confused with it.

would be paid to the underwriting house, who would adjust matters with the sub-underwriters in due course.

Illustration.—Busheys, Limited, issue 50,000 new shares of £1 each, and enter into a contract with Walter Watford, who underwrites the whole issue at 4 %, with an over-riding commission of 1 %. Watford obtains sub-underwriting contracts from K. Langley and P. Pinner for 20,000 and 10,000 shares respectively. In due course the Company pays £2,500 to Watford, who apportions the amount as follows:—

		Shares.	Commission. £	s.	d.
W. Watford underwrites		50,000			
Less sub-writing—					
K. Langley	20,000				
P. Pinner	10,000	30,000 at 1 %	300	0	0
		20,000 at 4 % and 1 %	1,000	0	0
			1,300	0	0
K. Langley		20,000 at 4 %	800	0	0
P. Pinner		10,000 at 4 %	400	0	0
		50,000	£2,500	0	0

Firm Underwriting.—When an underwriter desires to retain the whole, or a part, of the shares he underwrites as an investment, or for subsequent re-sale, a clause is added to the contract stating the proportion of the risk he agrees to take *firm*. The number of shares covered by this firm underwriting clause are, in due course, allotted to him irrespective of the extent to which the public has come forward in relief of the underwriter. In some cases a portion of the public issue is placed "firm" at a fixed rate of commission, no relief being granted for applications made by the public. It is a frequent practice to grant options to underwriters to subscribe for shares at par within a defined period.

The practice of firm underwriting, with its ramifications, tends to complicate the apportionment of the liability of the underwriters when a public issue is not fully subscribed. For this reason it is essential that the company accountant should possess adequate knowledge of the principles of underwriting, otherwise he will be unable to prepare accurate lists of the shares applied for, or to apportion correctly the underwriter's liability. A common form of underwriting letter is given below. The accountant should note that by S. 108 (3), (*f*) the total sums paid as commission in respect of any shares or debentures must be set out in the Annual Return. So much of such commission as has not been written off must be stated in every balance sheet of the company (S. 44).

Underwriting Letter.

RAYON D'OR, LIMITED.

ISSUE OF £50,000 IN ORDINARY SHARES OF £1 EACH.

To the Flotations Syndicate, Ltd.,
365 Finsbury Circus, London, E.C.

In consideration of a commission of 5 per cent. I/We agree, when called upon by you, to subscribe for, and accept allotment of, ... shares of the above issue, which is to be offered for public subscription at par in accordance with the terms of the prospectus of the Company as finally agreed and published.

I/We undertake, before 2 o'clock on the first day on which such prospectus is published, to send in an application in proper form for the above number of shares, together with the amount due upon application, and, in due course, to pay the balance due upon such shares according to the terms and conditions of the Company's prospectus.

This undertaking is conditional upon the understanding that all shares applied for by the Public shall go in relief *pro rata* of the above number of shares subscribed for by me/us.

The agreed commission of 5 per cent upon the nominal amount of the shares hereby underwritten is to be paid to me/us within 14 days after allotment.

This agreement is not revocable by me/us before the ...... day of . .. . 19.., and, in case of need, is your authority for making application in my/our name for the above number of shares at the issue price, and for making the several payments in respect thereof on my/our behalf I/We hereby indemnify you against any loss incurred through my/our default in carrying out the above undertaking

Kindly advise me/us of your acceptance of this agreement.

Yours truly,

(*Name*) ....

(*Address*).............................

(*Date*)..................

Please note that I/We desire to take .... of the above shares firm.

(*Name*) ....

(*Address*).............................

We accept the above agreement.

(*Signature*) ....

Note—A duplicate of the agreement will be signed on behalf of the Syndicate and sent to the underwriters. Sometimes a clause is inserted stating the minimum number of shares which must be underwritten prior to the public issue.

Brokerage.—It is usual when making a public issue of shares to offer a brokerage to stockbrokers and other agents, as an inducement to them to invite, and secure, applications for shares from their clients. Every company has power to pay brokerage (see judgments in the case of *Metropolitan Coal Consumers' Association* v. *Scrimgeour*, [1895] 2 Q.B. 604, where the conditions and limits of brokerage are stated), whereas underwriting commission can only be paid legally in the circumstances mentioned above. The amount of any brokerage which it is proposed to pay is usually mentioned in the prospectus, but this is not essential, as S. 43, which deals with commission, does not affect the company's right to pay brokerage. Brokerage is quite distinct from underwriting commission, and must not be confused with it.

PROMOTER.

The promoter of a company, in conjunction with others, is, in certain events, liable to compensate subscribers for shares or debentures (S. 37). The student may have seen it suggested that promoters, as a class, are common swindlers. None but an irresponsible person would make such a statement, for many of our leading bankers, stockbrokers, merchants, and financial men have acted as promoters. It is difficult to frame a good definition of a promoter The legal definition is probably much wider than the commercial. Cockburn, C.J., said: "A promoter is one who undertakes to form a company with reference to a given project, and to set it going, and who takes the necessary steps to accomplish that purpose." Lord Bowen, in *Whaley Bridge Printing Company* v. *Grant* (5 Q B.D. 109), said that "the term 'promoter' is a term not of law but of business, usefully summing up in a single word a number of business operations familiar to the commercial world, by which a company is generally brought into existence." It would appear that, to be made liable, a promoter must be shown to have acted as a principal in the formation of the company. A solicitor acting for a promoter has been held not to be a promoter A promoter stands in a fiduciary relationship to the company he promotes, hence it is sometimes very important to know who, from the legal point of view, are actually the promoters of a company.

A promoter is liable for any false statements contained in the prospectus. He must have a valid contract with the vendors of property prior to selling it to the company If he acquires property as a promoter, and sells it to the company, he must disclose the fact, and also the price he paid for the property He may, in fact, make no secret commissions or profits. It would appear, however, that he is entitled to make any profit he can, provided that he discloses the fact to the company.

MEMORANDUM OF ASSOCIATION.

The Memorandum of Association is the company's charter of incorporation. It sets forth the conditions on which the company exists and defines its objects. A company's sphere of action is limited by the provisions of its Memorandum. All acts outside this defined sphere are *ultra vires*. When the Memorandum is registered, its provisions bind every member of the company, just as though each member had personally executed them. The following are some of the statutory requirements for every Memorandum of Association:—

Statutory Requirements.

(1) The signatories must subscribe their names to the Memorandum, observing the proper formalities.

The Memorandum of a *public* company requires seven signatories; in the case of a *private* company two signatories

are sufficient. Usually each signatory subscribes for no more than one share at this stage. The signatories must pay for the shares in money or money's worth when called upon by the company to do so, but no letters of allotment are necessary for these shares If a company continues to trade after its membership has been reduced below the limits named above, every member who is cognisant of the fact is severally liable for any debts the company may contract, and the company may be wound up.

(2) The Memorandum must give the name of the company, with the addition of the word "Limited" (except in the case of companies with unlimited liability), and state whether the registered office will be situated in England (which includes Wales) or Scotland.

As will be explained later, all companies are required by statute to keep the statutory books, documents, and certain registers at this registered office. A summons, notice, or other legal process may be served on a company only at its registered office.

It is important to note that the word "Limited," or a recognised contraction, must appear after the name of the company. The contraction "Ltd." would appear to be legal (*Stacey & Co.* v. *Wallis*, [1912] 106 L.T. 544, 28 T.L.R. 209). When an association, devoted to the promotion of some scientific, religious, or philanthropic object, is about to be registered as a limited company, and the company proposes to pay no dividends, but to devote whatever profit may accrue to the company to the furtherance of the particular objects for which it exists, then, upon application to the Board of Trade for permission to omit the word "Limited" from the name of the company, a licence to do so will be granted, provided the Board is satisfied that the application is *bona fide*. Such applications are usually made on behalf of hospitals, chambers of commerce, professional societies, and similar non-commercial associations. The licence cannot be obtained *after* the company has received its certificate of incorporation.

S. 93 provides that the company's name must be painted in legible letters outside all its places of business, and must appear, equally clearly, on the seal of the company. The seal should be of metal—the rubber stamp sometimes used is very undesirable—and should be guarded by two keys held by two directors, or by one director and the secretary The company's name must appear on all notices, advertisements, bills of exchange, promissory notes, endorsements, cheques, orders for money or goods, bills of parcels, invoices, receipts, and letters of credit.

No name will be registered which is identical with, or closely resembles, any name already on the Register, or so closely resembles a name already registered as to be likely to deceive, unless the company in existence is in the course of

being dissolved and signifies its consent in such manner as the Registrar requires. Neither, without the consent of the Board of Trade, may any name be registered which includes words implying royal patronage There are also restrictions on the use of the words "Chamber of Commerce," "Building Society," "Municipal," "Chartered" and "Co-operative" (S. 17). A company may change its name by means of a special resolution, if the sanction of the Board of Trade has first been obtained in writing [S. 19 (1)].

(3) The Memorandum must set out the objects for which the company is formed.

The "objects" clause of the Memorandum is usually drawn with the widest possible scope, in order to avoid the somewhat irksome procedure that would be necessary, viz. a special resolution confirmed by petition to the Court, if subsequently it were found desirable to alter or extend the original objects. In these days, however, "objects" clauses are so comprehensive that this contingency very rarely arises. It must be remembered that as a general principle the wide powers usually contained in the later object clauses are construed as ancillary to the specific objects stated generally in the earlier clauses Powers "to do all such other things as may be conducive to the attainment of the foregoing objects" and the like, do not authorise a fresh or different object But a declaration that none of the sub-clauses or the objects therein specified should be deemed subsidiary or auxiliary to the objects mentioned in the first sub-clause was held to be effective: and the general principle of construction mentioned above does not apply in such a case (*Anglo-Cuban Oil, Bitumen, and Asphalt Co.*, [1917] 1 Ch. 477; affd. *sub nom. Cotman* v. *Brougham*, [1918] A.C. 514). The objects must, of course, be legal, and must not trespass upon any Government monopoly or any rights granted only by special Acts, e.g. the *Assurance Companies Act*, 1909.

The objects clause of a company may be amended in the manner mentioned above, if the Court is satisfied that the rights of the creditors and shareholders will not be impaired by the change, and if, further, the Court is satisfied that the amendment will enable the company (*a*) to conduct its business more efficiently or economically, or (*b*) to attain its main purpose by new or improved means, or (*c*) to enlarge or change the local area of its operations, or (*d*) to engage in business that will combine conveniently or advantageously with its existing business, or (*e*) to restrict or abandon any of the objects specified in the original clause, or (*f*) to sell or dispose of the whole or any part of the undertaking of the company, or (*g*) to amalgamate with any other company or body of persons.

(4) The Memorandum must state that the liability of the members is limited.

Companies may be registered as limited by guarantee, a term which implies that every member guarantees to contribute an agreed amount in the event of liquidation. Such companies are not numerous, the form of registration being quite unsuited to commercial undertakings. They chiefly consist of mutual insurance companies, clubs, etc.

(5) The Memorandum must give the amount of the share capital and its subdivision into shares of a fixed amount.

A company may, and usually does, take power to increase, reduce, sub-divide, convert into stock, consolidate, or reorganize its share capital. It may also, under S. 49, by special resolution, provide that some portion of its capital shall not be called up, except in the event of liquidation, a common practice in the case of large banks. Capital so reserved cannot be made the subject of a charge to secure loans (*Bartlett* v. *Mayfair Property Co.*, [1898] 2 Ch. 28). Appropriate provisions as to capital are also made in the case of unlimited companies and companies limited by guarantee.

SHARE CAPITAL.

Authorised (Nominal or Registered) Capital.—The amount of capital which a company is authorised to issue by its Memorandum, and which it has registered with the Registrar (see below), is

(STATEMENT OF NOMINAL CAPITAL.)

No. of Certificate__________

______________________________________LIMITED.

STATEMENT of the Nominal Capital made pursuant to S. 112 of the Stamp Act, 1891, as amended by S. 7, Finance Act, 1899, and by S 39 Finance Act, 1920. (NOTE.—The Stamp Duty on the Nominal Capital is £1 for every £100 or fraction of £100.)

This Statement is to be lodged with the Memorandum of Association or other Document, when the Registration of the Company is applied for.

The NOMINAL CAPITAL of______________________________

______________________________________Limited,

is £__________divided into__________shares of £__________each.

Signature____________________

Description____________________

Dated__________day of__________19..

This Statement should be signed by an Officer of the Company.

Presented for filing by____________________

known as the Authorised, or Nominal, or Registered Capital. The promoters of a company determine at their discretion the denominational value of the shares into which the authorised

No. of Company________ Form No. 10.

THE COMPANIES ACT, 1929.

NOTICE OF INCREASE IN NOMINAL CAPITAL

Pursuant to Section 52.

Name of Company ______________________________ Limited.

Presented by ______________________________

To the Registrar of Companies.

____

____

hereby gives you notice pursuant to Sect 52 of the Companies Act, 1929, that by (*a*)__________Resolution of the Company dated the__________ day of__________19__, the nominal Capital of the Company has been increased by the addition thereto of the sum of £__________beyond the registered Capital of £__________. The additional Capital is divided as follows:—

Number of Shares.	Class of Share	Nominal Amount of each Share.

The conditions (e g. voting rights, dividends, etc.) subject to which the new Shares have been or are to be issued are as follows:—

(If any of the new Shares are Preference Shares state whether they are redeemable or not.)

*(Signature)*__________

*(State whether Director, or Manager, or Secretary)*__________

Dated the__________day of__________19__.

(*a*) "Ordinary," "Extraordinary" *or* "Special"

Note.—This notice, accompanied by a printed copy of the Resolution authorising the Increase, must be forwarded to the Registrar of Companies within 15 days after the passing of the said Resolution

share capital shall be divided. Shares of £1 are most frequently met with, but many different denominations from 1s. to £100 can be instanced. During the rubber boom the premium to which some of the earlier issues rose led in some cases to the issue of 1s and 2s. shares. The same company may issue more than one class of share, and each class may have a different denominational value.

The power to increase the Capital must be given by the Articles. If the Articles prescribe any special procedure, e.g. a special or extraordinary resolution, that procedure must be followed But in the absence of such stipulation an ordinary resolution is sufficient; but the power must be exercised by the company in General Meeting [S. 50 (2)]. The directors may issue any part of the unissued capital of a company at any time at their discretion.

Subscribed (Issued) Capital.—That portion of a company's capital which has been issued and taken up by the public, or allotted as fully or partly paid to the vendors, is called the Subscribed or Issued Capital. It is frequently less than the authorised capital.

Called-up Capital is that part of the subscribed capital which has been called up, the uncalled part of the subscribed capital being referred to as the *Uncalled Capital.*.

Paid-Up Capital is the capital that has been called up and actually paid

Calls.—This term is now applied both to the amount demanded and to the demand itself. Calls are made either in accordance with the terms of the prospectus or at the discretion of the directors, by resolution of the Board, passed in proper form. Shares which are not fully paid are unpopular with investors, but the fact that uncalled capital is available in case of need naturally enhances the credit of a trading company. Table A provides that no call shall exceed one-fourth of the nominal amount of the share. It is customary to give fourteen, or more, days' notice of the intention to make a call, and, generally, an interval of at least a month, or two months if a Stock Exchange quotation is sought, elapses between the calls. Under the regulations of Table A of the *Companies Act*, 1862, which are still in force as regards companies registered under them, twenty-one days' notice of calls was necessary, but fourteen days is the period fixed under Table A of both the 1908 and 1929 Acts.

A specimen *Call Notice* appears at p. 239.

In England, debts due to or from members of a company under the Memorandum and Articles of Association are specialty debts, and are, therefore, not statute-barred until twenty years have elapsed [S. 20 (2)].

Calls in Advance.—In the Articles of some companies provision is made under S. 48 for the payment of calls in advance, interest being allowed thereon, usually at 4 % (Table A fixes the maximum at 6 % without the sanction of a general meeting). Since calls paid in advance are loans, interest at the fixed rate is payable, even though there are no profits out of which to pay it (*Lock* v *Queensland Investment and Land Mortgage Co.*, [1896] App. Ca. 461). The

same case is an authority for the view that calls paid in advance cannot subsequently be repaid, although the money is not required by the company. In the event of winding-up, however, calls paid in advance take priority over other share capital, but not over creditors.

Calls in Arrear.—Most Articles of Association provide that no member whose calls are in arrear shall be entitled to vote, and grant power to deduct the amount of unpaid calls from any dividend that may accrue to the shares. Table A provides that interest shall be charged on calls in arrear at 5 % per annum, but empowers the directors to waive it wholly or in part.

"A" and "B" Contributories.—In the event of liquidation, the liquidator may call upon any person who held shares in the company within a year of the commencement of winding-up proceedings to meet any unpaid calls on his former holding which the existing holder is unable to meet, provided that funds are required to pay debts contracted by the company before the former holder ceased to be a member. Persons so liable are known as "B" contributories, and persons on the register at the date of winding-up are referred to as "A" contributories.

Forfeited Shares.—Apart from the fact that provision is made in the annual return for particulars of forfeited shares, the Act itself is silent on the matter of forfeited shares. The Articles of almost every company, however, provide that shares, the calls on which are unpaid, may be forfeited after certain formalities have been observed. Even if the special articles contain no such provision, Articles 23–25 of Table A in the first schedule of the Act (unless they are specially excluded) confer the necessary powers. Apart from such powers, there is no statutory right to forfeit shares. In cases where special articles are framed, they usually follow Table A very closely. A forfeiture of shares for the non-payment of debts other than calls is invalid (*Hopkinson* v. *Mortimer*, [1917] 1 Ch. 646).

Procedure in Forfeiture.—The usual procedure in cases of forfeiture is to send a formal notice to the member whose calls (including premiums, if any) are in arrear. This notice requests payment of the calls, points out that interest at the rate allowed by the Articles will be charged on the calls, and reminds the member that the shares are liable to forfeiture if the calls are not paid. Should this notice fail, a second is sent demanding payment of the calls and the interest, and giving notice that, failing payment on or before a date not less than fourteen days from the date of the notice, the shares will be forfeited under the terms of the Articles. Both notices are sent by registered post, for, in case of need, it is essential that the company should be able to prove delivery (*In re New Chile Gold Mining Co.*, 45 C.D. 598). If the defaulter does not comply with the second notice, a resolution is passed by the directors forfeiting the shares, and notice of the fact is sent to the member by registered post. The Articles usually provide that forfeiture does not release the defaulter from his liability for the calls due and unpaid at the time of forfeiture. The

only liability he escapes is the liability for future calls. But where a Company has forfeited shares, upon which calls remain unpaid, and re-allots them, any calls paid by the new allottee must be regarded as reducing the liability of the former member, notwithstanding any provision in the Articles that the original holder is to remain liable for all calls owing upon the shares at the time of the forfeiture. Consequently, should the original holder become bankrupt, the right of the Company to prove is limited to the difference between the amount due from the bankrupt and the sums received from the new allottee, plus the interest of which the Company has been deprived by reason of the non-payment (*In re Bolton, ex parte North British Artificial Silk, Ltd.*, [1930] 99 L.J. Ch. 209).

Reissue of Forfeited Shares.—Forfeited shares become the absolute property of the company, and may be reissued at a price which, together with the amount paid by the original owner, will produce 20s in the £1. This practically amounts to their issue to the new holder at a discount equal to the sum paid on them by the original owner (*Morrison* v. *Trustees and Executors, etc*, *Corporation*, 68 L J. Ch. 11). In practice, forfeited shares are usually reissued at their nominal value, and the amount of "Cash received on forfeited shares account" represents a profit. It is clear that any amount received in excess of the unpaid calls practically becomes a premium on the shares, and it is submitted that such profit should be treated as capital profit and utilised to increase the company's reserves or for some similar purpose; but, unless prohibited by the Articles, there is nothing to prevent the company from treating the amount as divisible profit. Details of any shares that have been forfeited must be set out on the front sheet of the "Annual Return" The Balance Sheet should also show the transaction clearly. For illustrations of the method of treating transactions arising from the forfeiture of shares, see pp. 240-3.

Classes of Shares.—Several denominations of shares are commonly met with. Ordinary (Preferred and Deferred), Preference (Participating, Cumulative, Non-cumulative, Pre-preference, Redeemable); Deferred; Founders; Management; and Bonus shares.

The privileges or rights attaching to any particular class of share are defined by the Memorandum or Articles of Association. If these respective rights are defined by the Articles only, they may be altered by special resolution. If, however, they are defined by the Memorandum, then the following method will be adopted:—

If the alteration involves either consolidation of shares of different classes or division of shares into shares of different classes, application must be made to the Court to call a meeting of the members or class of members concerned; and the rights of any particular class of shares are not to be interfered with, except by a resolution passed by a majority in number representing three-fourths in value of the members or class of members, as the case may be, present and voting, either in person or by proxy, at the meeting so called, and sanctioned by the Court (S. 153). This

resolution has no effect until an office copy of the Court Order has been registered with the Registrar.

By S. 61.—(1) If in the case of a company, the share capital of which is divided into different classes of shares, provision is made by the memorandum or articles for authorising the variation of the rights attached to any class of shares in the company, subject to the consent of any specified proportion of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares, and in pursuance of the said provision the rights attached to any such class of shares are at any time varied, the holders of not less in the aggregate than 15 % of the issued shares of that class, being persons who did not consent to or vote in favour of the resolution for the variation, may apply to the Court to have the variation cancelled, and, where any such application is made, the variation shall not have effect unless and until it is confirmed by the Court.

(2) An application under this section must be made within seven days after the date on which the consent was given or the resolution was passed, as the case may be, and may be made on behalf of the shareholders entitled to make the application by such one or more of their number as they may appoint in writing for the purpose.

(3) On any such application the Court, after hearing the applicant and any other persons who apply to the Court to be heard and appear to the Court to be interested in the application, may, if it is satisfied, having regard to all the circumstances of the case, that the variation would unfairly prejudice the shareholders of the class represented by the applicant, disallow the variation and shall, if not so satisfied, confirm the variation.

(4) The decision of the Court on any such application shall be final.

(5) The company shall within fifteen days after the making of an order by the Court on any such application forward a copy of the order to the registrar of companies, and, if default is made in complying with this provision, the company and every officer of the company who is in default shall be liable to a default fine.

(6) The expression "variation" in this section includes abrogation, and the expression "varied" shall be construed accordingly.

Of the various classes of shares enumerated above it may be said briefly that:—

Preference Shares usually rank first both as to dividend and capital. In the absence of prohibitive clauses in the Memorandum, any company may take power, by special resolution, to issue preference shares (*Andrews* v. *The Gas Meter Co.*, [1897] 1 Ch 361).

As to the alteration of the rights of various classes of shareholders if defined in the Memorandum, *vide supra*.

Simple, or Non-cumulative Preference Shares have a preferential right to dividend out of the profits of each year only, and have no claim upon the profits of subsequent years for dividends unpaid in former years, as have cumulative preference shares.

Cumulative Preference Shares.—The arrears of dividend (if any)

in this class of shares are accumulated, and are payable before any dividend becomes payable upon inferior classes of shares. Payment of arrears of preference dividends is contingent upon sufficient profits being earned, and such dividends are not due until duly recommended and declared. Therefore, unless the Articles otherwise direct, such arrears are stated in the balance sheet as a note only. In many cases preference shares are entitled to priority of payment not only as to dividend but also as to capital, i.e. in the event of liquidation. But in order to exist, this right must be expressly stated in the Memorandum and Articles, or in the conditions of issue.

Participating Preference Shares.—In addition to the fixed rate of dividend, these shares are also entitled to share the surplus profits upon defined terms with the ordinary shareholders. Preference shares are not entitled to any share of surplus profits after the payment of the fixed dividend unless specific provision to this effect exists.

Pre-Preference Shares are issued, with the consent of the Preference shareholders, usually for the purpose of providing urgently needed capital They have rights prior to the original preference issue, and in such cases are sometimes called *First Preference Shares*. If the Articles are silent on the point, preference Shares are assumed to carry cumulative dividend rights. If they are intended to be "simple," this fact should be clearly stated.

Redeemable Preference Shares.—By S 46.—(1) Subject to the provisions of this section, a company limited by shares may, if so authorised by its articles, issue preference shares which are, or at the option of the company are to be liable, to be redeemed:

Provided that—

(*a*) no such shares shall be redeemed except out of profits of the company which would otherwise be available for dividend or out of the proceeds of a fresh issue of shares made for the purposes of the redemption;

(*b*) no such shares shall be redeemed unless they are fully paid;

(*c*) where any such shares are redeemed otherwise than out of the proceeds of a fresh issue, there shall out of profits which would otherwise have been available for dividend be transferred to a reserve fund, to be called "the capital redemption reserve fund," a sum equal to the amount applied in redeeming the shares, and the provisions of this Act relating to the reduction of the share capital of a company shall, except as provided in this section, apply as if the capital redemption reserve fund were paid-up share capital of the company;

(*d*) where any such shares are redeemed out of the proceeds of a fresh issue, the premium, if any, payable on redemption, must have been provided for out of the profits of the company before the shares are redeemed.

(2) There shall be included in every balance sheet of a company which has issued redeemable preference shares a statement specifying

what part of the issued capital of the company consists of such shares and the date on or before which those shares are, or are to be liable, to be redeemed.

If a company fails to comply with the provisions of this sub-section, the company and every officer of the company who is in default shall be liable to a fine not exceeding one hundred pounds.

(3) Subject to the provisions of this section, the redemption of preference shares thereunder may be effected on such terms and in such manner as may be provided by the articles of the company.

(4) Where in pursuance of this section a company has redeemed or is about to redeem any preference shares, it shall have power to issue shares up to the nominal amount of the shares redeemed or to be redeemed as if those shares had never been issued, and accordingly the share capital of the company shall not for the purposes of any enactments relating to stamp duty be deemed to be increased by the issue of shares in pursuance of this sub-section:

Provided that, where new shares are issued before the redemption of the old shares, the new shares shall not, so far as relates to stamp duty, be deemed to have been issued in pursuance of this subsection unless the old shares are redeemed within one month after the issue of the new shares.

(5) Where new shares have been issued in pursuance of the last foregoing sub-section, the capital redemption reserve fund may, notwithstanding anything in this section, be applied by the company, up to an amount equal to the nominal amount of the shares so issued, in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares

Notice of redemption, as of all alterations of share capital, must be filed with the Registrar of Companies within one month (S. 51).

Guaranteed Shares are sometimes met with. The title usually indicates that the fixed dividend on the shares has been guaranteed by the vendor of the business, or by others.

Preferred Ordinary Shares —These rank next to the preference shares proper, and are entitled to a fixed dividend after the claims of the preference shareholders have been met.

Ordinary Shares.—These shares are generally entitled to any profits that may remain after the fixed dividends on prior classes of shares have been paid. Such shares, as a general rule, carry no special privileges.

Deferred, Management, and Founders Shares are usually held by the promoters, founders, or management of the issuing company, and usually stand aside for dividend purposes until an agreed rate has been paid on the ordinary shares, which to this extent become preferred shares. These shares are usually few in number and insignificant in amount; but the share of profits and the voting power they carry are often large. Deferred or vendors shares are sometimes issued in part payment of the purchase price of property acquired by a company. Deferred shares are not very popular with the ordinary investing public, and do not always conduce to the prudent financial management of a company.

S. 35 and Fourth Schedule provide that the prospectus must contain particulars of the numbers and rights of shares of this nature.

Bonus Shares are sometimes issued by successful companies in lieu of increased dividends. The proceeding really amounts to the payment of a dividend, since the amount of the dividend is credited to the shareholders and discharged by the issue to them of shares of equal value. Under S. 43, bonus shares are sometimes issued in whole or part payment of brokerage and underwriting commission payable upon an issue of capital.

Profit-sharing Certificates—In some cases such certificates are issued, but as a general rule they form no part of the issued capital of the company, and convey no capital or voting rights. They merely entitle the holder to a certain share of the profits, and are usually issued to the company's employees as an inducement to good service, or to certain classes of shareholders of reconstructed companies as compensation for the surrender of rights previously held.

Stock.

S. 50, s.-s. 1 (*c*) enables companies to convert fully paid shares into stock, and the majority of companies reserve power in their Articles to do so. The capital of a company cannot be offered in the form of stock in the first instance. It must be subscribed in the form of shares and subsequently converted. If no power of conversion exists, it may be obtained by a special resolution amending the Articles. Conversion means that all the shares lose their distinctive numbers and are consolidated into one "block" of capital, capable of being transferred in units of an agreed amount, or, occasionally, as in the case of Government Stocks, in fractional amounts, e.g. £106 19s 11d. Generally, however, transfers of stock are limited to a certain fixed amount—usually £5 or £10—and to multiples thereof. Before conversion can take place the share capital must be fully paid.

By S. 50, s.-s. 1 (*d*), a company, if the Articles permit, may subdivide its capital into shares of a smaller denomination than those originally issued. The proportion between the amount paid and the amount, if any, unpaid on each share must, however, remain unaltered. This course has been followed by several very successful companies, notably by those companies whose shares were of a larger nominal value than £1, since shares of large denomination may lose some part of their popularity when they become priced at considerable premiums in the market.

Notice of conversion of shares into stock and of any subdivision must be filed, in the prescribed form, with the Registrar (fee 5s.).

Kinds of Stock.—As in the case of shares, so also there are various kinds of stock, e.g.:—

Preferred Stock, a term which is self-explanatory.

Guaranteed Stock, a term implying that the capital of the stock, and the dividend payable on it, is guaranteed by some Government or corporation, or, in some cases, that it is merely preferred as to capital or dividend, or both, in which circumstances the term is a misnomer.

Deferred Stock, the dividends on which are deferred in favour of prior stock.

Inscribed Stock.—In the case of inscribed stock no certificates are issued to the holders of the stock, but their names are recorded or inscribed as owners in the books of the official or agent managing the stock. The Bank of England, which manages British Government borrowings, issues such stock. The Bank also issues Government securities in the form of bearer certificates. Such certificates are known as "Floaters." The Westminster Bank and the Crown Agents for the Colonies, both of whom act as registration agents for various Dominion and Colonial Government stocks, are also issuers—for these Governments—of inscribed stock and corresponding bearer certificates.

The Bank of England rules regarding the transfer of Stocks are as follows.—

Stock can be transferred—

By the Stockholder, or in a joint account by all the Stockholders (or, if the Stockholder or Surviving Stockholder is deceased, by his Executors or Administrators), attending in person at the Bank of England, being identified by a Stockbroker and executing a transfer in the Bank books, or by a duly authorised Attorney, in like manner.

War Stock (£4 %, £4½ %, and £5 %), £4 % Funding Stock, £3½ % and £4½ % Conversion Stocks, Registered Treasury Bonds, £2½ % and £4 % Consolidated Stocks, £2½ % Annuities, £2¾ % Annuities, Local Loans £3 %, Guaranteed £2¾ % and £3 % Stocks, and Guaranteed Land Stock, 1921 (Irish Land Stocks), Indian Government Stocks, and Birkenhead £6 % Stock, if registered as Transferable by Deed can be transferred by Deed by the Holder, or in a joint account by all the Holders (or, if the Holder or Surviving Holder is deceased, by his Executors or Administrators); or by a duly authorised Attorney. The Deed of Transfer duly completed must be lodged at the Bank with the corresponding Certificate.

N.B.—Holdings of these Stocks transferable in the Stock Transfer Books and not by Deed may be registered as transferable by Deed on demand made in the prescribed form (to be obtained at the Bank of England) by the Holder, or Holders (as above).

Holdings transferable by Deed may be made transferable in the Stock Transfer Books on demand made in like manner and on surrender of the Register Certificate.

In the case of Inscribed Stock and Bonds registered as transferable in the Bank books, production of Stock Receipts, Certificates of Inscription, or Certificates of Registration is not required when the Stock to which they relate is dealt with; these documents are of value only as memoranda, the title of the Stockholder being the entry in the Bank books. Duplicates of such documents are not issued.

The Register Certificate issued in respect of Stock transferable by Deed must, however, be surrendered when any part of the Stock to which it relates is dealt with.

A Stockholder can obtain verification of the inscription of the Stock to which a Stock receipt purports to relate, either by personal attendance at the Bank bringing with him the Stock receipt and being accompanied by a Stockbroker for purposes of identification; or, by forwarding a signed request on a special form provided for the purpose, and a postal order for 1s. (except in the case of

British and Indian Government Securities, where no fee is payable) to the Chief Accountant of the bank concerned. In the latter case the form will be returned enfaced with a statement as to the inscription of the Stock.

Shares of all descriptions, except certain shares in the New River Company, are personal estate and not real estate (S. 62), and are capable of transfer in the manner prescribed by the Articles of the company concerned, and, in the absence of special requirements, by transfer in the usual or common form.

DEBENTURES.

Although debentures are a debt due by a company, and not a part of the capital of a company, as is sometimes erroneously stated, it will be convenient to deal with the subject at this point.

Notwithstanding much legislation and case law on the subject, no statutory definition of a debenture is available A debenture may be said to be a document, usually under seal, issued by a company to a creditor, to secure the payment of interest at a specified rate on money lent and the repayment of the capital. Probably almost any document which creates or acknowledges a debt is entitled to the name. There is no statutory or universally adopted form of debenture, and though they generally contain provisions such as are discussed below, they may contain whatever provisions are agreed between the company and the lender. One of the chief advantages of a debenture, as contrasted with an ordinary mortgage, is that it is more readily marketable and transferable. Smaller amounts may also be advanced by the investor in this form of loan.

A debenture may be a single document, or one of a series of equal amounts ranking *pari passu*. The former document is not common, and is usually issued to cover a loan from the company's bankers. In some cases more than one series of debentures is issued, ranking, in order of issue, as *First Debentures, Second Debentures*, and so on. In such cases it is usual for the rate of interest paid on the different series of debentures to increase with the lessening value of the security, a second issue carrying a higher rate of interest than a first, and a third than a second issue.

It is important to remember that any document offering debentures for subscription is a prospectus within the meaning of the Act, and must be filed with the Registrar and otherwise comply with the Act.

The holder of a debenture is not a member of the company, notwithstanding that S. 130, s.-s. 1 (*b*) gives debenture holders of public companies the same rights as members to demand a copy of the last balance sheet; auditors' report, etc., without charge.

A trading company under the Act may be assumed, as a general rule, to possess ample borrowing powers (*General Auction Estate Co.* v. *Smith*, [1891] 3 Ch. 432). The test whether such powers have been properly exercised turns upon the question

whether the borrowing was "properly incident to tne conduct of the business." It has been held that, in the absence of special powers, a building society cannot borrow (*Blackburn Building Society* v. *Brooks* [1882], 22 Ch. D. 61).

There is no statutory limit to a company's borrowing powers, but they are usually defined and limited by the Memorandum or Articles which state, moreover, whether the powers are to be exercised by the directors with or without the sanction of a general meeting. In estimating the borrowing power available under the limit granted by the Articles, bank overdrafts must be taken into account (*Looker* v. *Wrigley*, [1880], 9 Q.B.D. 397). If a Stock Exchange quotation is desired, the borrowing powers of the directors must be limited in order to obtain it. Where borrowing powers exist, they are assumed, as a general rule, to imply power to issue debentures and charge the company's property as security for them. A company's Articles not infrequently limit the power of issuing debentures to an amount equal to the subscribed capital. Debentures may be issued at a discount without any formalities such as attend the issue of shares at a discount (see p. 175).

Registered and Bearer Debentures.—The majority of debentures issued in this country are *Registered*, but, in other countries, *Bearer Debentures* are almost exclusively employed. Transfer and registration are necessary on a change of ownership of registered debentures, but in the case of bearer debentures mere delivery is all that is necessary, since these debentures are recognised by the Courts as being negotiable instruments (*Edelstein* v. *Schuler*, [1902] 2 K.B. 144). The unpopularity of bearer debentures in this country is partly explained by the heavier stamp duty payable on them, the rate being 4s. per £10, or fractional part of £10 of stock, as compared with 2s. 6d. per £100 stock in the case of registered debentures. No stamp duty is, however, chargeable upon any coupons attached to bearer debentures, and it should be remembered that the stamp duties and other expenses incidental to transfer in the case of registered, are avoided in the case of bearer, debentures, which pass by mere delivery. Registered debentures must bear an impressed stamp, and if the debentures are issued at a premium, the stamp duty must cover the amount of the premium, but not if redeemable at par at a fixed date, with company's option to redeem earlier at a premium.

A debenture unaccompanied by any charge is said to be *Naked* or *Simple*, and although the document is under seal, the holder is merely an ordinary creditor without security. Such debentures are not common, except as acknowledgments of short loans.

A debenture may be a mortgage of specific property of the company, or it may be a "floating charge" on all or part of its assets. A floating charge is a present charge on the property to which it relates, but it leaves the company free to deal with the property "in the ordinary course of business." The company may therefore mortgage, sell, or otherwise dispose of the assets so charged. The charge ceases to be floating and crystallises into a fixed charge only when the debenture holders intervene.

Intervention by the debenture holders would occur, e.g., if the interest due on the debentures were sufficiently in arrear, or if the mortgage moneys were due and unpaid, or if the assets charged were in jeopardy. All debentures creating or secured by any charge must be registered with the Registrar of Companies. Under S. 266 a floating charge created within six months of the commencement of winding-up is void except to the extent of the cash actually paid to the company in consideration for the charge with interest at the rate of five per cent. per annum, unless it can be proved that the company was solvent immediately after the charge was created. All debentures which carry a charge on the company's property are, in practice, termed "Mortgage Debentures." A common form of registered debenture appears at pp. 146–7. In a "bearer" debenture the words "the bearer" are substituted for the name of the registered holder

Security for Debenture Issues.—The debentures may themselves constitute a charge, but as a rule the security supporting a debenture issue takes the form of a *Trust Deed.* This trust deed, which is referred to in the debentures, charges the company's property, or some portion of it, in favour of one or more named persons, called Trustees for the debenture holders. These trustees represent the debenture holders and safeguard their interests. By virtue of the trust deed, the debenture holders become an organised body under the guidance and protection of the trustees who act for them. In the case of debenture stock, a trust deed is essential. It appears to be a growing practice to appoint well-known insurance companies or banks as trustees for debenture issues. In Canada and the United States this office is usually undertaken by a Trust Company.

Debenture Charges.—A debenture may create a specific charge on some particular portion of the company's property, e.g. its freeholds A charge of this kind is called a *Fixed Charge.* Property so charged cannot be dealt with, or disposed of, by the company, since the legal estate in the property is vested in the debenture holders or their trustees. The deeds of property specifically charged should be in the custody of the trustees for the debenture holders.

The *Floating Charge* created by a debenture usually covers the whole property of the company "whatsoever and wheresoever both present and future." As the term indicates, a charge of this kind is based upon assets which change from day to day. It may cover all the assets, or it may be confined to specified assets, e.g. book debts, but it cannot create a lien on the statutory books, which must be kept at the company's registered office. A floating charge does not prevent the company from dealing with its floating assets, such as stock, book debts, cash, etc., from day to day in the ordinary course of business. All it does is to create a charge over such assets in priority to all other creditors. So long as the company continues as a going concern, the charge remains dormant. It only operates when, following a breach of the conditions on which the charge was created, the debenture holders are compelled to intervene in order to protect their interests.

No. 56. £100.

RAYON D'OR, LIMITED.

(Incorporated under the Companies Act, 1929)

SHARE CAPITAL (Authorised and Issued) £100,000.

Divided into 100,000 Shares of £1 each

Registered Office:

Spencer House, South Place, London, E.C 2.

Bankers:

Westminster Bank, Limited, Lothbury, London, E C.

Issue of £10,000 Mortgage Debenture Bonds in 100 Debentures of £100 each, bearing interest at 5 per cent. per annum.

Ranking pari passu

RAYON D'OR, LIMITED (hereinafter called the Company), in consideration of the sum of One Hundred pounds paid to them by *Joseph Laing* of *The Rosary*, *Maidenhead*, hereby covenant with the said *Joseph Laing*, his executors, administrators and assigns, to pay the said *Joseph Laing*, his executors, administrators, or assigns, on the 31st day of December, 1953, at the registered office or at the bankers of the Company the sum of £100 on presentation of this debenture, and the Company will in the meantime pay interest thereon to the registered holder for the time

being at the rate of five per centum per annum by equal half-yearly payments on the 30th day of June and 31st day of December in each year, the first payment of interest to be made on the 30th day of June next. And the Company do hereby charge with such payments the undertaking, stock-in-trade, lands, premises, works, plant, property, and effects (both present and future) of the Company, to the intent that this security forming part of the above-named issue of £10,000 may rank equally as a first charge upon the said undertaking, stock-in-trade, lands, premises, and other property and effects, but so that the same shall, until default in the payment of the principal or interest to accrue due and become payable in respect of the said sum of £10,000 or some part thereof, be a floating security not hindering any sale, exchange, or lease of the said lands or premises, or any of them, or the receipt or payment of any moneys, or any other dealings in the course of the business of the Company, but attaching to the premises leased, and the proceeds of any sale or exchange, and the lands or other property purchased therewith or with moneys of the Company. The principal moneys hereby secured shall immediately become payable if the Company make default for a period of one calendar month in the payment of any interest hereby secured, and if the registered holder before such interest is paid by notice in writing to the Company calls in such principal moneys or if an order is made or an effective resolution is passed for the winding up of the Company. The Company reserves to itself the right to pay off all or any of these debentures at its option at any time by giving six months' previous notice in writing to the registered holder.

Given under the Common Seal of the said Company this *20th* day of *January* One thousand nine hundred and

SEAL of Rayon d'Or, Ltd

R. Radford
G. Dickson } Directors.

J. P. Moon, Secretary.

A debenture may charge the uncalled capital of a company, if the Memorandum or Articles permit that course. The majority of trust deeds now combine a fixed charge upon all the immovable assets, such, e.g., as land, and a floating charge upon all the changing assets.

It sometimes happens that a debenture which confers a floating charge on foreign assets is not recognised by the Government of the country in which the assets are situated. In that case the debenture is practically "naked." In Russia, for example, prior to the commercial collapse of that country, it was not unusual to find that the subordination of the claims of foreign to Russian creditors was a condition of the recognition of a foreign company.

Receiver for Debenture Holders.—When their security appears to be in jeopardy, the usual course for the debenture holders is to appoint, or obtain the appointment by the Court of, a *Receiver* to take possession on their behalf of the property charged in their favour. When the debenture issue is a large one, it is usual, as mentioned above, to secure the issue by a trust deed. The parties to the deed are, on the one side the company, and on the other the trustee or trustees representing the debenture holders. The deed contains a formal acknowledgment of the loan, an undertaking to repay it at an agreed time, or by instalments, or drawings, and specifies the rate of interest payable on the loan and the times of payment, usually half-yearly. It enumerates and conveys to the trustees the property included in the charge, and also gives the trustees power, in certain events, to place a receiver in possession of the property covered by the charge The appointment on the ground of jeopardy to the assets must be made by the Court.

The most usual events which entitle debenture holders to the appointment of a receiver are:—

(*a*) Default in the payment of interest for the period of three months.

(*b*) Default in the repayment of the capital (where the conditions of issue so require) after due notice has been given to call it in.

(*c*) Levy of an execution, or other event, by which the assets are placed in jeopardy.

(*d*) Passing of a winding-up resolution.

(*e*) Breach of any of the covenants contained in the trust deed.

When the receiver is appointed under a mortgage or trust deed, his powers are derived from and limited to those specified in the deed. When appointed by the Court, the receiver derives his powers from the Court and must act under direction of the Court. A receiver must give notice of his appointment to the Registrar of Companies within seven days of his appointment. Notice must also be given when he ceases to act (S. 86). The accounts of a receiver under a deed are filed every six months with the Registrar, and take the form of a condensed receipts and payments account in

IN THE HIGH COURT OF JUSTICE,
CHANCERY DIVISION
MR. JUSTICE ....

IN THE MATTER OF ....

BETWEEN . ... on behalf of themselves and all other the holders of Debentures of the said Company entitled to the benefit of the Indenture dated .... mentioned in the endorsement on the Writ in this action and suing as specific Mortgagees in their own right *Plaintiffs.*

. ... and .... .

.... and others *Defendants.*

The First Account (from January 1, 19.. to March 31, 19.. both inclusive) of . ..., the Receiver appointed in this Action pursuant to the Judgment dated ... . of all the undertaking and property whatsoever and wheresoever of the Defendant Company comprised in or subject to the security and charge created by the Debentures issued by the Defendant Company to the Plaintiffs and the other Debenture Holders and the above-mentioned Indenture of the ....

No of Item	Date when Received	Names of Persons from whom Received.	On what Account Received	Amount Received. £	s	d	No of Item	Date when Paid or Allowed.	Names of Persons to whom Paid or Allowed.	For what Purpose Paid or Allowed	Amount Paid or Allowed £	s	d
	19..							19.					
1	Jan 1	Balance from last Account	J	1,023	7	6	1	Jan 2	Northern Assurance Company	Insurance of Stock ..	25	0	10
2	,, 1	British Government	Interest on £600 5 % Exchequer Bonds, less tax	11	12	6	2	Feb 8	Metropolitan Water Co	Charges to Dec. 25th last	7	0	0
3	,, 12	Hugh Dickson & Co.	Sale of furs	1 262	10	8	3	,, 21	London Telephone Service	Charges for quarter to Dec. 25th last	10	0	0
4	Feb. 10	A. R. Goodwin	Sale of fixtures and fittings	52	8	9	4	Mar. 1	Smith & Sons, Ltd.	Wharf charges..	4	11	8
5	,, 20	C Testout	Rent of part premises to Dec 25th last	56	0	0							
		Etc.	Etc.						Etc.	Etc.			

the prescribed form The accounts of a receiver appointed by the Court must be prepared in the prescribed manner as shown on p 149, and must be accompanied by vouchers and bank pass book, and be verified by affidavit, and be passed at such intervals as the Master may direct.

Redemption of Debentures.—Debentures may be *Perpetual* (or *Irredeemable*) ; *Redeemable by Drawings* ; *Repayable on Demand* ; or *Repayable at a fixed future date* Debentures may also be redeemable by purchase in the open market. The insertion of a clause giving the company the option to redeem its debentures (*a*) by drawings at par, or (*b*) purchase in the open market if the current price is below par, secures to the company the power to redeem at the cheapest rate available

The payment of a redeemable or terminable debenture takes place (*a*) on some specified future date (usually the company reserves the right, on giving due notice, to anticipate the date); or (*b*) after due notice of the intention to redeem has been given, or (*c*) when drawn at the periodical drawings. These drawings are determined by ballot, the numbers drawn (in the case of bearer bonds) being advertised in the Press. Irredeemable or perpetual debentures, sanctioned by S. 74, are a kind of perpetual annuity, the capital being repayable only in the event of default in the payment of interest, or in the case of winding-up They do not appear to be popular.

Debenture Stock may be issued instead of debenture bonds, and in that case, as was explained in connection with shares, the holder receives a certificate entitling him to a specified part of the whole issue, instead of a particular bond, or bonds, each bearing a distinctive number. But while share stock must first have existed in the form of fully paid share certificates, an *original* issue of debenture stock may be made.

As is the case with other forms of debentures, debenture stock may be either registered or bearer stock.

Reissue of Debentures.—By S. 75 debentures which have been redeemed may be reissued by the company, or other debentures may be issued in their place, unless any provision to the contrary, whether express or implied, is contained in the Articles or in any contract entered into by the company; or unless the company has, by passing a resolution to that effect or by some other act, manifested its intention that the debentures shall be cancelled. A reissued debenture is, for the purposes of stamp duty, a new debenture. S. 75, which is retrospective, is probably the result of decisions *In re George Routledge & Sons*, [1904] 2. Ch. 474, and *In re W. Tasker & Sons*, [1905] 2 Ch. 587. In the first case it was held that debentures redeemed and re-issued did not rank *pari passu* with the original issue, and in the second case, where the original issue was security for a loan which had been paid off, that the company having redeemed the debentures, could not reissue them, since they had ceased to exist. The decisions in these cases had the effect of securing the whole of the assets charged for the benefit of the remaining debenture holders, greatly to the detriment

of the company and its borrowing powers S. 75, substantially a re-enactment of S. 104 of the Act of 1908, which was a re-enactment of S. 15 of the Act of 1907, legalised, with the exceptions mentioned above, the reissue of debentures "either before or after the passing of this Act" By s.-s. 4 of S. 75, debentures issued by way of security to cover a bank overdraft on current account or otherwise are not to be considered as being redeemed by reason only of the account of the company having ceased to be in debit, whilst the debentures remain so deposited. That is to say, the same debentures are available for future overdrafts.

Example of a Capital Issue.—The young student, confronted by the array of debentures and shares of various classes often issued by a single company, sometimes wonders why the simpler course is not followed of confining the capital to a single issue of ordinary shares. Certainly, it would be simpler to adopt this course, but other and more important factors have to be considered, the chief of which is financial expediency. The following illustration may be offered by way of demonstration:—

A syndicate purchases an old-established business, and desires to dispose of it to a limited company. The purchase price of the assets and goodwill is fixed at £250,000, and to give the new company an advantageous start it is decided to provide £50,000 for additional working capital. The total capital to be raised from the public is therefore £300,000. The certified average profits of the business for the past five years amount to £24,000. These profits show only 8 % on the proposed capital. The promoters are aware that 8 % is not sufficiently attractive to the ordinary investor in this particular class of undertaking. They know also that many investors prefer a smaller rate than 8 % if it is combined with greater capital security. To the latter class debentures and preference shares will prove more attractive. Therefore, to satisfy both main classes of investors, the promoters make the following issues:—

	Issue.	*Interest Required.*
£100,000	5 % Debentures	£5,000
100,000	7 % Cumulative Preference Shares ..	7,000
	Leaving available for dividend on	
100,000	Ordinary Shares at, say, 12 % .	12,000
£300,000		£24,000

In this way, by catering for all classes of investors, the desired amount of £300,000 is raised, the scheme possessing this further advantage, that, if the company is successful, the £100,000 represented by the debenture issue can be redeemed. Some or all of the preference shares may be in the form of Redeemable Preference Shares for a similar reason. In fixing the portion, if any, of the purchase price which is to be taken in "paper," the syndicate will, if it desires a Stock Exchange quotation, bear in mind that at least two-thirds of the debenture and preference share issues must be offered unconditionally for public subscription.

STOCK EXCHANGE QUOTATION.

Most public companies desire to obtain an *Official Quotation* on the London Stock Exchange for their shares and debentures. Without this official recognition it is difficult to dispose of securities readily, owing to the lack of a market; and hindrance to the free marketing of a security sometimes seriously affects its price. Certain conditions must be complied with before the Committee of the Stock Exchange will grant a quotation, hence it is essential that a company's prospectus, or Offer for Sale, and Articles of Association should be so framed as to satisfy these requirements. It is usual, therefore, for a company to appoint a stockbroker as its official agent, since an application for a quotation must be made through a broker, a member of the Stock Exchange

If the company's application is favourably received, a quotation for its shares, if sufficiently popular, will appear in due course in the *Daily Official List* of the Stock Exchange (price 8d.), which gives the price ruling at 3.30 p.m. on the day of publication. Similar information, taken from the list, appears in the Press. The "Business Done" column of the list gives the prices at which securities have actually changed hands between 10.45 a.m. and 3.30 p.m. on the day of publication. If dealings in a company's shares are not numerous enough to justify inclusion in the lists, it is sometimes the practice for a company to make special arrangements with the Press to publish a quotation. It is generally understood that companies whose subscribed capital is less than from £70,000 to £75,000 are not sufficiently important to warrant a quotation.

Conditions Necessary for a Quotation.—The conditions governing the grant of a quotation are too lengthy to set out in full. A few of the more important conditions may, however, be given.

(1) The prospectus must have been publicly advertised in at least one London morning newspaper, and must agree substantially with the Articles of Association; provide for payment of at least 10 per cent. of the amount subscribed; state fully the terms of redemption of any debentures, debenture stock or redeemable preference shares included in it; and state whether any debentures offered are bearer or registered debentures.

(2) Two-thirds of any class of shares or securities proposed to be issued must have been applied for by, and unconditionally allotted to, the public.

(3) The Articles of Association must provide that.—

(*a*) The directors must hold more than a nominal share qualification.

(*b*) The borrowing powers of the Board are limited to a reasonable amount.

(*c*) The non-forfeiture of dividends is secured.

(*d*) The common form of share transfer must be used.

(*e*) Certificates shall be under the Common Seal and bear

the Autographic Signatures of one or more directors and the secretary.

(*f*) The fully-paid shares must be free of all lien

(*g*) The company in General Meeting may remove any director from office

(*h*) The annual accounts must be sent to all members seven days prior to the annual meeting.

(*i*) Calls in advance shall carry interest only and not participate in dividends.

Before granting a quotation, the Stock Exchange Committee requires a statutory declaration from the chairman and secretary of a company that all the necessary initial steps have been duly taken. Copies of the essential documents must be supplied, together with the original application letters, and the allotment sheets signed by the chairman and secretary. In due course, three copies of the report and accounts must be sent annually to the Secretary of the Stock Exchange.

VOTING POWERS.

The voting powers carried by shares are, almost without exception, determined by the Articles of Association Failing this, unless specifically excluded by special articles, Table A attached to the Act of 1929 will apply to companies registered on or after November 1, 1929. Article 54 of Table A provides that, on a show of hands, every member shall have one vote, and that, on a poll, every member shall have one vote for each share held by him. The same provision was contained in Table A of the Act of 1908, which applies to companies registered since March 31, 1909, but before November 1, 1929. But as Table A of the 1862 Act still applies to companies registered without Articles before April 1, 1909, and also to companies which by their Articles adopted that Table, it should be remembered that clause 44 of that Table A provides for a graduated scale of voting intended to restrict the power of holders of large blocks of shares. But such holders could defeat that intention by transferring blocks of shares to nominees (*Pender* v *Lushington*, [1877] 6 Ch. D 70).

S 115 enjoins that, in default of and subject to any regulations in the Articles, every member is to have one vote for each share or each £10 of Stock held by him. As a general rule, the Articles of Association give the chairman of any meeting a casting vote, a right which, unless it is conferred by the Articles, he does not possess. To enable a member to vote, he must actually be entered in the Register of Members, and, as a general rule, the Articles provide that he must have paid all the calls due upon his shares.

Poll.—The Articles also usually state rules for regulating the demand for, and conduct of, a poll. A *Poll* is an appeal to the whole body of shareholders for a vote upon a particular question at issue. Usually, the Articles declare that a poll can only be taken if it is demanded by a stated minimum of members holding a stated minimum of shares. Under Table A of 1929 a poll may

be demanded by at least three members present in person or by proxy entitled to vote, or by one member or two members so present and entitled, if that member or those members together hold not less than 15 per cent. of the paid-up capital of the company. Under Table A of 1908 a poll must be demanded by at least three members. Under Table A of 1862 five members are required

By S. 117, s-s. 4, on a special or extraordinary resolution a poll may be demanded by three persons entitled to vote, or by one or two members so entitled, if that member holds or those two members together hold not less than 15 % of the paid-up share capital, unless the Articles require some other number, which must not be fixed at more than five. But there appears to be no limitation for a poll respecting an ordinary resolution. The date and conduct of a poll lies within the chairman's discretion, unless specially provided for by the Articles, and the result of the voting decides the question at issue. If several matters are to be decided, each should be taken separately.

In most cases a poll is held at an adjourned meeting, of which due notice is given to all members; but it may be taken at the original meeting, and this is desirable if it is a large and representative meeting.

The demand for a poll upon a particular resolution does not prevent the transaction of the remainder of the business on the agenda. A poll should be taken in writing, and a voting paper should be signed by every member voting, the number of votes to which the member is entitled being stated. The voting papers should be passed by two scrutineers, after they have been checked with the Register of Members.

The Articles sometimes restrict the voting powers of the holders of preference shares to matters directly affecting their interests, such as, e.g., the issue of debentures or prior stocks; the winding-up of the company; reduction of capital; sale of the business, etc.

Proxies.—Shareholders unable to attend a meeting personally may, if the Articles permit, appoint a person to act as their *Proxy* for voting purposes. The word "proxy," in its strict meaning, denotes the person appointed to act, but it is also commonly applied to the instrument by which he is appointed. The majority of companies frame their own regulations regarding proxies, and insert them in the Articles. It would appear that voting by proxy is not sanctioned at common law, apart from the provisions that may be contained in the Articles, or Table A if that is not excluded. As a general rule, the holder of a proxy must be a member of the company (although it should be noted that by the revised Table A of 1929 a proxy need not be a member of the company), and the document appointing him must be lodged with the company forty-eight hours prior to the holding of the meeting at which it is to be used. Under Table A of 1862, seventy-two hours was the time fixed, and special Articles sometimes fix the period at twenty-four hours.

This allows sufficient time to ensure that the regulations have

been complied with. It is usual to nominate several persons in the proxy form, any one of whom is authorised to act if those whose names precede his are unable to attend the meeting. Proxies usually need no attestation, but they may require to be attested if the Articles so direct. The form of proxy in Table A of 1929 and that of 1908 does not provide for attestation; but attestation is required under the old Table of 1862. The proxy must be stamped before execution with a penny, embossed or adhesive, stamp, if it is to be used for a single specified meeting, and with a 10s. stamp (as a power of attorney if it is to be used for more than one meeting or for a specified period of time. The decision of the chairman of the meeting whether a particular proxy is valid or invalid is final. Proxies held by shareholders on behalf of other members do not count on a show of hands, and can only be used when a poll is taken. Proxy forms are not infrequently sent out, at the expense of the company, in favour of one or more of the directors. This practice appears to be in order (*Peel* v. *London and North-Western Railway Co.*, [1907] 1 Ch 5, and *Campbell* v. *Australian Mutual Society*, [1909] 24 T.L.R. 623) Prior to the meeting for which they are valid, a list of all proxies which are in order, and the number of votes they carry, should be prepared for the information of the chairman. A common form of proxy is given below.

(*Proxy.*)

RAYON D'OR, LIMITED.

1*d* *Stamp*

I, *Arthur Goodwin*, of *Castle Hill, Maidenhead*, in the County of *Berkshire*, being a Member of *Rayon d'Or*, Limited, and entitled to Vote, hereby appoint *Charles Lefebvre, Spencer House, South Place, E.C., or failing him John Laing of the same address* as my proxy, to vote for me and on my behalf at the *Ordinary* General Meeting of the Company to be held on the *fourteenth* day of *February* One thousand nine hundred and ...... and at any adjournment thereof

AS WITNESS my hand this *eleventh* day of *February* One thousand nine hundred and ......

Signed by the said *Arthur Goodwin*, in the presence of *George Dickson, clerk, 236, Finsbury Pavement, E.C.* } *Arthur Goodwin.*

A corporation which is a member of a company may by resolution of its directors authorise any person it thinks fit to act as its representative at any meeting of the company or its members The person so authorised can exercise the same powers on behalf of the corporation which he represents as the corporation could exercise if it were an individual member (S. 116) Where Table A applies the instrument appointing the corporation's proxy may be under seal or under the hand of an officer or attorney duly authorised.

Quorum.—The minimum number of shareholders who must be present to constitute a valid meeting is called a *Quorum*. Three, as suggested by Article 45 of revised Table A, is the usual number, and this is the number fixed by the majority of Articles. But if the Articles do not fix the number, then two members form a quorum. One shareholder cannot, generally speaking, constitute

a quorum; neither, when more than one member is present, can proxies be counted in computing a quorum unless the Articles so provide, but a person appointed to represent a corporation under S. 116 (see above) may be taken into account for the purposes of a quorum (*Kelantan Coconut Estates*, [1920] W.N. 274). A person holding the whole of the shares of a certain class, however, may constitute a meeting of the members of that class to consent to a modification of the rights of the class (*East* v. *Bennett Bros.*, [1911] 1 Ch. 163). And under Table A, a quorum of one may be appointed under Art. 82 for meetings of directors; and directors may delegate their powers to a committee of one (*Fireproof Doors*, [1916] 2 Ch 145). Usually, the Articles direct that if a quorum is not present at a meeting within half an hour of the time for which it was called the meeting shall stand adjourned to such date and time as may be mentioned in the Articles. Revised Table A is to that effect, viz., that the meeting shall stand adjourned to the same day in the next week, at the same time and place, and further directs that if at the adjourned meeting a quorum is not present within half an hour of the time appointed for the meeting, then the members present shall be a quorum (*Article* 46).

Articles of Association.

The document containing the rules and regulations for carrying into effect the objects defined in the Memorandum of Association, and for the internal government of the company, is known as the Articles of Association.

The Articles deal principally with the following matters:—

Capital; Payment of Underwriting Commission; Share Certificates and Transfers; Regulations with regard to: Calls, Notices to Members; Liens; Forfeiture and Surrender of Shares; Voting Powers; Increase and Reduction of Capital; Borrowing Powers; Proceedings at Meetings; Powers, Qualification and Disqualification, Removal, Rotation, and Remuneration of Directors; Appointment of Managing Directors; Proceedings at Board Meetings; Accounts and Audit; Creation of Reserves; Payment of Dividends; Rights of Members *inter se*, etc.

The Memorandum always dominates the Articles, but, should the Articles conflict with the Memorandum, both documents must be construed together in the attempt to harmonise the inconsistency. Most companies file special Articles to suit their particular requirements Others adopt as they stand, or with modifications, the model set of Articles known as Table A, which forms the First Schedule to the Act.

Companies limited by shares need not file Articles of Association, but if no Articles are filed, Table A applies automatically (S. 8). Table A also applies in so far as it has not been expressly excluded or modified by the special Articles. The majority of companies, however, specially exclude Table A, whilst adhering very closely in their special Articles to most of the Clauses of Table A.

Unlimited companies, private companies and companies limited

by guarantee *must* file Articles. A written or typed Memorandum of Association will be accepted by the Registrar for filing, but Articles must be printed and divided into paragraphs numbered consecutively, and must be signed by the signatories to the Memorandum and attested, and stamped as a deed They are binding upon all the members of the company, just as though each had signed them personally and agreed to observe them.

No Article is valid which is contrary to law or public policy. A company cannot, for example, by means of an Article, assume powers to pay dividends out of capital It has been held that no Article contained in Table A can be *ultra vires*.

Articles of Association can only be added to or amended by special resolution, a printed copy of which must be filed with the Registrar within fifteen days of the passing of the resolution. The resolution must be included in all copies of the Articles subsequently issued (S. 118). In a similar manner, by S. 10, companies governed by Table A can alter or delete any of the Articles contained in the Table by means of a special resolution. Every member of the company is entitled to a copy of both Memorandum and Articles on payment of 1s , or such less sum as the company may prescribe. Similarly, any member is entitled to require the company to send to him a copy of any Act of Parliament which alters the memorandum, on payment of such sum not exceeding the published price thereof as the company may prescribe.

Table A.—The original Table A appeared as the First Schedule to the *Companies Act*, 1862. Many of its regulations proved inconvenient. It was therefore revised by the Board of Trade, under the powers conferred by the Act, and the new Table A came into operation on October 1, 1906 This new Table applies to all companies registered after that date without Articles, or with Articles which do not expressly exclude the new Table. Older companies could adopt the revised Table by special resolution, but they are under no compulsion to do so. The 1906 Table, slightly modified, was appended to the Act of 1908 as the First Schedule, and applies to all companies registered on or after April 1, 1909, and before November 1, 1929, unless special Articles are adopted excluding the Table. The present Table A appended to the *Companies Act*, 1929, applies to all companies registered on or after November 1, 1929, and has been modified to meet modern conditions.

The author has been asked on several occasions by examination candidates to what extent they should memorise the chief regulations contained in this Table In the author's opinion the effort to memorise the Table would not be justified. Reference can always be made, if necessary to the Schedule itself. In construing either of the older forms of Table A, which still apply to many companies, it must be remembered that on some points, including the duties of auditors, the provisions of those Tables have been affected by later legislation.

Whether the company adopts special Articles of Association or whether Table A is adopted, these Articles bind each member

of the company to the same extent as if they had been respectively signed and sealed by each member and contained covenants by each member to observe them. Articles added subsequently are equally binding (SS. 10 and 20) Articles, however, do not bind the company to the members except as members, nor do they create any contract between the company and outsiders (*Eley* v. *Positive Assurance Co.*, [1876] 1 Ex. D. 88).

Registration of Company.

When registering a public company with a share capital at Somerset House—companies may also be registered at Edinburgh —the following documents must be filed:—

(1) Memorandum and Articles of Association (if any), duly signed—stamp, as deeds, 10s. each.

On the Memorandum of Association, there is payable on registration an *ad valorem* duty (see Tenth Schedule to the Act, 1929), as follows:—

	£	s.	d.
When the nominal share capital does not exceed £2,000	2	0	0
When the capital exceeds £2,000 —			
For every £1,000 or part thereof up to £5,000 ..	1	0	0
For every £1,000 or part thereof beyond £5,000 and up to £100,000	0	5	0
For every £1,000 or part thereof beyond £100,000	0	1	0

The maximum fee payable as stamp duty on the Memorandum of Association is £50, and this maximum is therefore reached when the capital is £525,000.

On the Articles of Association a Registration Fee of 5s is payable.

(2) Statement of Nominal Capital. The stamp duty payable on capital is at the rate of £1 per cent. (*Finance Act*, 1920). Thus a company with a capital of £250,000 would pay £2,500.

(3) Notice of situation of registered office—fee, 5s.*

(4) List of the persons who have consented to be Directors —fee, 5s.

(5) Consent of Directors to act—fee, 5s.

(6) Written undertaking by each Director to take from the company and pay for Qualification Shares, in cases where they are not signatories to the Memorandum—fee, 5s., together with an agreement stamp (6d.) in respect of each signature, if the nominal value of the shares exceeds £5. If the directors are appointed and named in the Articles it is still necessary to file the consent to act, and also to file the contract to take shares, unless the Director has signed the Memorandum for sufficient shares to qualify him.

* It is convenient to file this document forthwith, but it may be filed at any time within twenty-eight days after the date of incorporation.

(7) Statutory Declaration by the solicitor concerned, or by a director or secretary named in the Articles, dated *after* the signature of the Memorandum and the Articles, that all requirements have been complied with—fee, 5s

(8) Prospectus, or Statement in Lieu of a Prospectus—fee, 5s.*

(9) Particulars of Contract of Sale (see S 42)—fee, 5s.*

If the capital of the company is subsequently increased, the same fees are payable as would have been payable on the increase had the new capital formed part of the original issue

All the above fees are denoted by impressed stamps on the relevant documents

A Private Company is required to file documents (1), (2), (3) and (7) only—with (9) where applicable

Certificate of Incorporation.—When all the requirements of registration have been complied with, the Registrar issues to the company a Certificate of Incorporation, which states that the company is limited and duly incorporated. The certificate bears the date of the second official day after that on which the fees and duties were paid, provided the Registrar finds the papers to be in order, otherwise there may be a delay until the documents are rectified. It affords conclusive proof that all the requirements for registration have been complied with and that the company is registered under the Act (S. 15).

The members of the company form a body corporate as from the date of the certificate, and are capable of exercising all the functions of an incorporated company. A new legal entity has come into existence. A private company may begin business immediately on the issue of this certificate, but a public company is not entitled to commence business until a certificate has been issued to it authorizing it to commence business (S 94)

It is usual to frame the certificate of incorporation, and exhibit it at the registered office of the company, but there is no legal necessity to accord the certificate such distinguished treatment.

Subscription List.

The prospectus having been duly settled, and all the necessary papers registered at Somerset House, the next step is the public advertisement and issue of the prospectus, and the opening of the subscription list. This list is usually open for three days in the case of ordinary commercial issues, but for shorter periods when an issue is likely to prove very popular A specimen form of *Application for Shares* is given at p. 160.

When more than one class of share is being offered, papers of different colours should be used for the various forms employed—indeed, bankers frequently stipulate for this.

It is convenient to adhere to the distinctive colours throughout.

* These documents may be, and usually are, filed at some time *after* incorporation.

(Form of Application for Shares with Receipt Form.)

RAYON D'OR, LIMITED.

(Incorporated under the Companies Act, 1929.)

This form must be sent *entire* direct to the Company's bankers, the National Provincial Bank, Ltd., Princes Street, London, E.C., together with a remittance for the deposit of 2s. 6d. per share on the shares applied for. Cheques should be made payable to the Bankers, *or Bearer*, and crossed "Not Negotiable."

To the Directors of Rayon d'Or, Ltd.

Gentlemen,

Having paid to your Bankers, the National Provincial Bank, Ltd., the sum of £ : : , being a deposit of 2s. 6d. per share on .... shares, which I hereby apply for, I request that you will allot to me such shares, upon the terms of the Company's Memorandum and Articles of Association and the prospectus issued by you and dated . ... .. 19..

I hereby undertake to accept such shares, or any less number you may allot to me, and I authorise you to place my name on the Register of Members of the Company in respect of the shares allotted to me.

Signature of Applicant ....

Name (in full) ....

Address.......................................

....

Occupation...................................

(A lady should state whether Spinster, Wife, or Widow.)

Date............ .. 19..

(Perforation.)

(Bankers' Receipt, to be detached and returned by Bankers.)

Rayon d'Or, Limited.

Received this ... . day of .... 19.. of M...... .. .. the sum of .... being 2s. 6d. per share upon ...., shares applied for in the above Company.

For the National Provincial Bank, Ltd.

Stamp

£ : : Cashier

This receipt must be preserved by the applicant, to be exchanged in due course for the share certificate.

RAYON D'OR, LIMITED.

Issue of 50,000 Ordinary Shares of £1 each.

APPLICATION AND ALLOTMENT SHEETS.

Date of Application	No. of Application	Name of Applicant: Surname	Name of Applicant: Full Christian Names.	Address	Description	No of Shares Applied For	Amount received on Application: C B Fol.	Amount received on Application: Amount	Date of Allotment	No of Shares Allotted	Distinctive Nos *: From	Distinctive Nos *: To

No of Allotment Letter	Total Amount due on Application and Allotment	Balance due on Allotment: Date	Balance due on Allotment: C B Fol.	Balance due on Allotment: Amnt	Amount returned to Applicant: Date	Amount returned to Applicant: C B Fol	Amount returned to Applicant: Amnt.	No of Letter of Regret	Balance due if paid up in full	Interest allowed at .. % p a	Net amount due.	C B Fol	Date rec'd	Amounts paid in advance of Calls: Date	Amounts paid in advance of Calls: C.B Fol	Amounts paid in advance of Calls: Amnt	Folio in New Register of Members	No of Certificate	Remarks †

Chairman's initials ... .

* Where there are several classes of shares, it is advisable to carry the numbering through continuously—e g Ordinary Shares, 1 to 100000, Preference Shares, 100001 to 200000, and so on This prevents confusion between the different classes of shares in subsequent transfer work.

† This column is used to specially ear-mark any forms bearing the initials of the directors or other applications which need special consideration

Thus, if a pink form be used for the preference shares, then all the forms relating to these shares—allotment letters, call notices, etc.—should be printed on pink paper. No legal significance attaches to a *printed* application form. Application by letter is equally binding. In the great majority of cases applications for shares, with the amount due on application, must be directed to the company's bankers. The bank's cashiers return, stamped and signed, to the applicant the receipt attached to the application form. To save the labour of endorsing, the application form usually directs that "bearer" cheques should be sent.

Application and Allotment Sheets.—When the list is closed, or daily, or at more frequent intervals, while the list remains open in the case of large issues, the application forms are handed to the company. From these forms, and, if necessary, the Underwriter's Liability List, the Application and Allotment Sheets are prepared. Sometimes these sheets are subsequently bound, and in that form constitute the Register of Members. If that course is followed, the sheets must provide accommodation for transfers, etc. A specimen Application and Allotment Sheet is shown at p. 161. The ruling of these sheets can, of course, be adapted to the special requirements of any particular company. Occasionally, provision is made in the sheets for the one or more calls announced in the prospectus. This practice has the advantage of giving a complete financial record of the issue in one place, but it is otherwise inconvenient, since it results in a book of unwieldy dimensions. The special call books described on p. 238 are found to be more serviceable. On completion of the issue, these sheets should be bound in book form, each class of share in a separate volume. When the issue is small, the sheets can be bound prior to use, but this course cannot be followed in the case of large issues, since, in order to effect economy of handling by the staff, they must be capable of distribution. For convenience of reference, the application forms should be numbered in the order in which the entries appear in the banker's pass book (or sheets), afterwards arranged alphabetically, and then entered on the application sheets. Separate application sheets are used for each letter of the alphabet in the case of large issues.

Where the shareholders are numerous, it is convenient to write up a card index from the application forms, in order that the various classes of shares, etc., held by the same person can be seen at a glance The card usually takes the following form:—

NAME:—*George Dixon.*
ADDRESS.—*Meadowcroft, Bray.*

PREFERENCE SHARES APPLICATION FORM NO. *331.*
ORDINARY SHARES APPLICATION FORM NO *221.*
DEBENTURES APPLICATION FORM NO. *196.*

(Letter of Regret.)

RAYON D'OR, LTD.,
962 FINSBURY CIRCUS,
LONDON, E.C.
January 14, 19...

1 *Enclosure.*

SIR (or MADAM),

I am instructed by the Directors of the above Company to express regret that they are unable to allot any shares to you in response to your application of ....

Enclosed I have pleasure in handing you a cheque for £ : : , being the amount paid by you on application.

Kindly sign the receipt attached at the foot hereof and present the enclosed cheque for payment in due course

Yours faithfully,

ROBERT WOOD,
Secretary.

To ....
....
....

(*Perforation*)

No. 3841.

LONDON .... 19..

TO THE NATIONAL PROVINCIAL BANK, LTD

Pay to .. .. or Order, the receipt below being duly signed, the sum of £ : : .

For and on behalf of

RAYON D'OR, LTD.

JAMES BURGET, *Director.*
ROBERT WOOD, *Secretary.*

(*Perforation*)

RECEIPT.

RECEIVED from Rayon d'Or, Limited, the sum of £ : : , being the amount deposited by me on application for .. .. shares, not allotted.

Receipt Stamp.

Sometimes such cards are used as a temporary register of members. In any case they afford useful material for the preparation of the Register and the Annual Return. If the sheets are to be used as a Register of Members, and are not arranged so that the names are in alphabetical order, then an Index must be kept.

Summary Sheets.—The total of each sheet should be carried to the summary sheets, which must be checked against the bank pass books (or sheets). The summary sheets will give the total number of shares subscribed, and will show whether the total amount due on application has been received and whether the minimum subscription fixed by the prospectus has been secured.

Going to Allotment.—When the directors are satisfied on these points, they will distribute the shares among the applicants, a process which is termed "going to allotment." If the issue has been over-subscribed, preference will be given to those applicants who are likely to prove most useful to the company, either as customers or in influencing the markets for its shares.

As far as possible the directors will reject applications from *Stags*, i.e. from persons who have no intention of holding the shares as an investment, but intend to sell at the first favourable opportunity.

Stockbrokers who circulate prospectuses amongst their clients usually ear-mark the application forms by means of a rubber stamp.

A *Letter of Regret* (see p. 163), with a cheque refunding the application money, is sent to each unsuccessful applicant, and particulars of the refund are duly entered on the sheets. Occasionally the applicant's own cheque is returned, with the notification that it "came to hand too late."

There is no statutory limit of time within which "regret moneys" should be returned. It is usual, however, to return them promptly. Sometimes letters of regret are endorsed with a form of receipt for the money received upon application. In large issues this saves time.

When a larger number of shares is applied for than is allotted, the balance of the application money is retained towards the amount due on allotment, and at once entered in the proper column on the sheets. If a Stock Exchange quotation is to be applied for, the application and allotment sheets must be produced, in due course, to the Committee.

Allotment Resolution.—The directors having satisfied themselves that the shares allotted amount to the minimum required but do not exceed the capital offered, a carefully prepared resolution should be passed and entered in the Directors' Minute Book, recording particulars of the shares allotted, and making reference to the sheets in which full details of the allotments are to be found. As an alternative the form given on page 165 may be used.

ALLOTMENT RESOLUTION.

RESOLVED *that Shares in the Capital of the Company be and are hereby allotted as under, and that the Secretary be instructed to give notice of allotment in due course to the respective allottees.*

Name.	Address	Occupation.	No of Shares Allotted	Distinctive Numbers	
				From	To.

When the allotments are heavy, the following form of resolution may be adopted:—

"RESOLVED that .... shares in the company, application for which were laid before the Board, be, and are hereby, allotted to the applicants set out in the application and allotment sheets signed by the chairman for identification, the shares allotted to each respective applicant being the number placed against his or her name therein"

It is usual in practice, though not legally necessary, formally to allot shares to the signatories to the Memorandum, and to head the allotment sheets with their names.

Allotment Letters (see p 166).—When the allotment sheets have been compiled, the allotment letters can be prepared. If the issue is likely to be popular and to be over-subscribed, it will be necessary to provide forms for partial allotments as well as forms for allotments in full. Although these documents must be stamped before execution with an embossed stamp (under £5, 1d.; over £5, 6d.), it is usual to have an ample supply ready for issue, as the value of the stamps on unused forms can be recovered from the Stamp Office (Cancel Branch), Somerset House.

When an Application for Shares is Binding.—An application for shares is legally binding on the applicant immediately the allotment has been made and the allotment letter has been posted. The application form and allotment letter taken together constitute a binding contract in law. An application for shares is an offer to enter into a contract; a letter of allotment is an acceptance of the offer, and the contract is complete the moment the allotment letter is posted. A contract to take shares may be avoided on grounds of irregularity, as, for example, in *Portuguese Consolidated Copper Mines, Ltd.* (1889), 42 Ch. D. 160, where, although the contract as between the company and the applicant was complete, the allotment was held to be invalid, because two out of the four directors of the company had wrongfully constituted themselves a quorum for the purpose of allotting the shares. An application may be withdrawn at any time prior to the despatch of the

(Allotment Letter.)

RAYON D'OR, LIMITED.

(Incorporated under the Companies Act, 1929.)

ISSUE OF 50,000 ORDINARY SHARES OF £1 EACH.

This form must be forwarded *entire*, together with remittance, to the Company's Bankers, The National Provincial Bank, Ltd., Princes Street, London, E.C., who will return it duly receipted. Cheques should be made *payable to "Bearer" and crossed* "Not Negotiable."

No. ....

ALLOTMENT LETTER.

Impressed* 6d Stamp.

962 FINSBURY CIRCUS,
LONDON, E.C.
January .... 19..

....
....
....

SIR (or MADAM),

In reference to your application, I beg to inform you that . .... . ordinary shares of £1 each in the Capital of the above Company have been allotted to you by the directors.

	£ s. d.
The amount payable on application and allotment, viz. 5s. per share on .... shares is ..	....
You have already paid on application	....
Making the amount due from you upon allotment £	....

This amount is now due from you, and should be paid forthwith to the Company's Bankers, the National Provincial Bank, Ltd., Princes Street, London, E.C. Due notice will be given when the share certificates are ready, and they will then only be delivered in exchange for this letter, accompanied by the receipts from the Bankers for amounts paid on application and allotment.

By Order of the Board,

....

Secretary.

(Perforation.)

BANKERS' RECEIPT FOR ALLOTMENT MONEY.

RAYON D'OR, LIMITED

RECEIVED this .. .... day of . ... 19. , the sum of £ : : , due in respect of allotment No. ......

THE NATIONAL PROVINCIAL BANK, LTD.

Stamp.

£ : : *Cashier.*

(Perforation)

(This slip to be detached and retained by Bankers.)

RAYON D'OR, LTD.

ALLOTMENT.

No. ....

Amount £ : : .

.... day of .... 19..

An alternative Bankers' receipt for shares paid in full upon allotment is sometimes attached, where such payments have been invited

* If under £5 a 1d. Stamp suffices.

allotment letter. Verbal revocation is sufficient. The death of an applicant prior to the receipt of the letter annuls the contract. Full and accurate particulars of the posting of allotment letters should be kept, in order that, if necessary, their due despatch may be proved

A card index register of all applicants for shares, the cards bearing the full names, addresses, descriptions, distinctive numbers of shares allotted, and share ledger folio, is indispensable, and, if revised as need arises, forms a convenient shareholders' address book A book of this kind is compulsory in the case of companies working under the *Companies Clauses Act*, 1845 (and see p. 179).

Legal Allotment.—It may be useful to recapitulate the conditions which, under S. 39, must be fulfilled to make an allotment of shares publicly subscribed legal.

(*a*) The "minimum subscription" must have been secured.

(*b*) The whole of the amount payable on application must have been received.

(*c*) The amount payable on application must not be less than 5 % of the nominal value of the shares.

If these conditions have not been fulfilled on the expiration of forty days from the date when the prospectus was first issued, all moneys received from applicants for shares must be returned.

Share Certificates.

A share certificate must be issued to every member within two months of the date of allotment, unless the conditions of issue otherwise provide (S. 67). The prospectus of new companies usually states that "certificates will be issued in due course when announced after payment of final call in exchange for receipts for all moneys payable." A Stock Exchange quotation cannot be obtained until the share certificates are ready. A share certificate is a document issued under the common seal of a company testifying to the ownership of shares in the company. It is usually signed by two directors and the secretary, and it affords *prima facie* evidence that the person named in the certificate is the owner of the shares specified in the certificate. S. 68 says. "A certificate under the common seal of the company, specifying any shares held by any member, shall be *prima facie* evidence of the title of the member to the shares."

When the certificates are ready for issue, a notice is sent to the shareholders informing them that their certificates will be handed to them—or, on receipt of written authority, posted to them—in exchange for the allotment letters and bankers' receipts for moneys paid on application and for any calls that may have been made. The allotment letters are cancelled when received, the number of the share certificate issued against them being noted on them, and, with the bankers' receipts, are filed, to be easy of access when the first audit of the company's accounts takes place.

No shareholder can obtain repayment from the company of the value of any shares he may have taken up, except in the

event of liquidation, but he may dispose of them by transfer, and his share certificate is his title to do so.

Any person incurring loss through the purchase of, or otherwise dealing in, share certificates erroneously or incorrectly issued by the directors has a good claim for damages against the company, but the company is not bound by a forged share certificate. A forged transfer gives no rights. But if the company issues a certificate upon such a transfer, a purchaser who, relying upon the certificate, parts with the purchase money can claim compensation from the company. The company can in return recover the amount which it has to pay from the person lodging the forged transfer. Share certificates should always accompany transfers lodged for registration, unless the transfer has been "certified" as described at p. 193, in which case they will have been lodged with the company in advance. A note to the effect that no transfer will be registered unaccompanied by share certificates is frequently printed on the face of the certificates. The title to a share is not complete until the transfer has been registered.

By S. 67, certificates of any shares, debentures, or debenture stock must be issued within two months of allotment or of the registration of a transfer, unless the conditions of issue otherwise provide. A common condition of issue is that no certificates will be delivered until the shares are fully paid.

Companies make no charge for the issue of certificates, and no stamp is necessary.

When certificates are issued for shares not fully paid, the extent to which the share is paid up should be stated in the body of the certificate, and provision should be made on the back for the endorsement of further calls.

New certificates should only be issued to replace lost certificates, and, before issuing the new certificate, the company should require the execution of a formal indemnity to protect it against possible fraudulent use of the old certificate.

Form of Share Certificate.—Share certificates (see form opposite) are numbered consecutively and bound in books. They should consist of three parts, each part bearing the printed number of the certificate, viz. (*a*) the counterfoil, on which should appear full particulars of the shares, name and address of the shareholder, date of issue, etc.; (*b*) a receipt form, which must be signed and returned by the member as his acknowledgment of the receipt of the certificate; (*c*) the certificate itself, which is retained by the member. The returned receipt forms should be pasted to the counterfoils.

Register of Share Certificates.—Careful record of the posting of all certificates should be kept, in order, if necessary, to prove their despatch. Suitable details of certificates issued are also frequently recorded in a *Register of Share Certificates*, particulars being entered there of the transferor, transferee, number of shares transferred, distinctive numbers of shares, date when the certificate was sealed, date when posted or delivered, etc.

Scrip Certificates.—Pending the issue of definitive certificates,

£100 *(Scrip Certificate.)*

CENTRAL AFRICAN TELEPHONE COMPANY, LIMITED.

(Incorporated under Special Acts of the Legislature of Nigeria.)

ISSUE OF £400,000 FOUR-AND-A-HALF PER CENT. FIRST MORTGAGE DEBENTURE STOCK.

Repayable May 1, 1982, *at* 105 *Per Cent.*

PROVISIONAL SCRIP CERTIFICATE.

THIS IS TO CERTIFY that upon payment of the remaining Instalments, viz. :—

£35 0 0 per cent. on June 18, 19.. ;
£34 10 0 per cent on July 16, 19.. ;

the Bearer will be entitled to be registered as the Proprietor of—

ONE HUNDRED POUNDS

of the above Stock, in respect of which the sum of £25 has already been paid

Payment in full may be made on June 18th, under discount at the rate of 3 per cent. per annum.

This Provisional Certificate must be produced at the Counting House of Messrs. John Doe & Co., 1999 Cornhill, London, E.C., upon payment of each instalment, and should be lodged with them, with the receipts attached, on or after November 1, 19.., together with a notice in writing on a form which can be obtained from them, stating the name, address and description of the person desiring to be registered, in order that the Definitive Certificate may be issued in due course in exchange therefor.

The Stock represented by this Certificate may be registered at the holder's option either in London or Katanga, and will be transferable by Deed in multiples of £1 at the Counting House of Messrs. John Doe & Co., 1999 Cornhill, E.C., or at the Offices of the Company in Katanga Principal and Interest will be payable where the Stock is registered, and, upon the Stock registered in Katanga, payment will be computed at \$4.86$\frac{2}{3}$ to the £.

Failure to pay any instalment when due will render previous payments liable to forfeiture and the allotment to cancellation.

p.p JOHN DOE & Co.,

1999 CORNHILL, E.C. ....
June 12, 19...

June 18, 19 ..
RECEIVED the sum of *Thirty-five Pounds*, 1st Instalment due this day.

For JOHN DOE & Co.,

£35. ....

July 16, 19...
RECEIVED the sum of *Thirty-four Pounds Ten Shillings*, 2nd Instalment due this day.

For JOHN DOE & Co.,

£34 10s. ....

...........1920.
RECEIVED
Payment in full.
For JOHN DOE & Co.,
....

CENTRAL AFRICAN TELEPHONE COMPANY, LIMITED,
4½ % FIRST MORTGAGE DEBENTURE STOCK.

Scrip for £100 Stock.

COUPON FOR £1 : 11 : 5

Payable to bearer, November 1, 19 ., less Income Tax, at the Counting House of Messrs JOHN DOE & Co., 1999 Cornhill, E C

it is usual to issue provisional documents known as *Scrip Certificates*. These certificates are evidence of title, and are issued by the company, corporation, or Government concerned, when the allotment money due on shares or debentures has been paid. Scrip certificates bear a 2d. impressed stamp, and confer on any purchaser of them the rights possessed by the seller. When all the instalments have been duly paid, the scrip certificates are exchanged for the definitive certificates. Returned scrip certificates should be bound in order, in suitable form. The term *scrip* is often loosely employed to denote all forms of bearer securities. A debenture scrip certificate appears at p. 169.

Share Warrants to Bearer.—If sanctioned by the Articles, *Share Warrants to Bearer* may be issued for fully paid shares (S. 70). A form of share warrant is given below. Shares represented by such warrants can be transferred by simple delivery of the warrant. It follows that private companies cannot issue warrants, as no restrictions such as must apply to shares in private companies can be imposed upon documents capable of transfer by mere delivery. The title of a *bona-fide* holder of a share warrant is absolute, since the document is a negotiable instrument (*Webb*,

(*Share Warrant to Bearer*)

(*Counterfoil*)

RAYON D'OR, LTD.

Share Warrant to Bearer.

For *100* shares.

From *1* to *100* inclusive

Certificate No. *9*

Issued to *Robert Hall,*
678, Aldgate,
London, E.C.

Dated *November 5, 19..*

Share Register folio : *564*

(*Warrant.*)

STAMP.

RAYON D'OR, LIMITED.
(*Incorporated under the Companies Act,* 1929.)

SHARE WARRANT TO BEARER.

No. *501.* Amount £100.

This Warrant is to certify that the Bearer is entitled to *100* Shares of £1 each fully paid numbered *1* to *100* inclusive, in Rayon d'Or, Ltd.

This Warrant is issued subject to the rules and regulations of the Company's Articles of Association and to the conditions endorsed on the back hereof.

Given under the Common Seal of the Company this *5th* day of *November*, 19..

John Smith,
William Black, } Directors.

James Scribe,
Secretary.

REGISTER OF SHARE WARRANTS.

Date of Application	No. of Warrant	To whom Issued	Particulars of Shares, etc., Exchanged.								Warrants Surrendered				
			Shares Exchanged				Stock Exchanged.				Nos of Warrants.		By whom Surrendered.	Folio of Ledger.	Date Surrendered.
			Folio of Share Register	No. of Shares	Distinctive Numbers.		Folio of Stock Ledger	Amount.			From.	To.			
					From	To		£	s.	d					

DEBENTURE INTEREST BOOK.

No of Interest Warrant	Debenture Register Folio	*Name of* Payee	*Address of* Payee.	Debentures Held			Interest for Half Year to @ %			Income Tax Deducted Rate			Net Amount of Warrant			When Paid by Bank.	Remarks.
				£	s	d	£	s	d	£	s	d	£	s	d.		

Hale & Co. v. *Alexandria Water Co.*, [1905] 21 T.L.R. 572). Share warrants are popular on the Continent, but are not extensively employed in this country, partly perhaps because the impressed stamp duty is three times the *ad valorem* transfer duty on the nominal value of the shares or stock, i.e. £3 per cent. Those British companies whose issues are popular on the Paris Bourse, such as British South African gold and diamond mining companies, are probably the chief issuers of share warrants in this country. Some of the great oil-producing companies, actively dealt in on the London Stock Exchange, are incorporated abroad, and holdings of their shares here naturally take the form of warrants to bearer issued under the laws of the country of origin.

Share warrants can only be issued for fully paid shares (S. 70). They are not a valid qualification for directors [S 141, s.-s. (2)]. The holder of a share warrant is, subject to the Articles, entitled, on application, to have his warrant cancelled, his name registered as a member of the company, and a share certificate issued to him [S. 97, s -s. (2)]. Sometimes coupons are attached to share warrants entitling the holder to six or twelve months' dividend. These coupons are detachable, and should be paid into a bank or to the company as may be directed in the conditions of issue. Bearer securities issued with coupons attached are not good delivery to a purchaser unless all unpaid coupons are intact. Stock warrants may be issued, provided the company has power in its Articles to do so. This right was not affected by the Act of 1929 (*Pilkington* v. *United Railways, etc.*, [1930] 69 L.J. 336). Bearer warrants for shares, but not for stock, are recognised by the Stock Exchange. If the holder of a share warrant desires to attend and vote at a meeting of the company he is generally required by the Articles to deposit his warrant with the company not less than two days before the meeting. A formal receipt acknowledging the deposit of the warrant is issued to the depositor, and this is his security for its due return.

Register of Share Warrants.—On the issue of a Share Warrant the company must strike out of its register of members the name of the member then entered therein as holding the shares specified in the warrant as if he had ceased to be a member, and must enter in the register the following particulars. The fact of the issue of the warrant; a statement of the shares included in the warrant, distinguishing each share by its number; and the date of the issue of the warrant [S. 97, s -s. (1)]. In practice, full particulars of all warrants issued are recorded in the *Register of Share Warrants* (see p. 171), since the company thus has a convenient record of the exact facts of each warrant.

The intention to pay a dividend is advertised by the company in the public Press, and payments are made only after the presentation and examination of warrants, or dividend coupons (Listing forms are usually supplied on application by coupon-holders), if these are attached to the warrants.

THE ISSUE OF FRESH CAPITAL.

When successful companies issue fresh capital, it is usual to apportion the new shares amongst the existing shareholders *pro rata*, and to offer, by circular letter, to each member the shares to which he is entitled. The allotment letters accompanying an offer of new shares usually include besides a *Form of Acceptance*, a *Form of Renunciation and Nomination*. The form given below is that recommended by the Institute of Bankers

(Letter of Renunciation)

RAYON D'OR, LIMITED.

No. ....

Name of Shareholder .. ..

Present Holding .... Shares.

Address ....

Entitled to a *pro rata* allotment of . ... Shares.

FORM OF RENUNCIATION AND NOMINATION.

(To be signed by the Shareholder only if the Rights are renounced.)

To the Directors of RAYON D'OR, LTD.

I/We hereby renounce my/our right to the above-mentioned new shares and nominate

....

....

....

to have all the benefits of the offer contained in your circular dated .... 19..

Signature of Shareholder ..... | *Affix Stamp* *Under £5 nominal 1d, and over 6d* | ....

Date .... 19..

FORM OF ACCEPTANCE.

TO BE SIGNED BY THE SHAREHOLDER OR NOMINEE.

To the Directors of RAYON D'OR, LIMITED

Having paid to your bankers the sum of £......, being the First Instalment at the rate of ...... per share in respect of ..... shares referred to in the within letter, I/we, the above-mentioned shareholder(s)/nominee(s), hereby accept your offer of the said shares pursuant to the Memorandum and Articles of Association of the Company and subject to the terms and conditions of your circular of ...., and I/we authorise you to place my/our name(s) on the Register of Members in respect of the said shares.

Signature of Acceptor ....

....

Date .... 19.. ....

Both the allotment letter and the letter of renunciation must bear stamps (less than £5, 1d., £5 and upwards, 6d.), although they are parts of the same document. Both parts are subject to the same stamp duties. In cases where a company's shares

are popular, these documents, when executed, are readily saleable on the Stock Exchange. The prices obtained for them depend upon the demand for the shares. In many instances of popular shares, the allotment letters command substantial premiums.

RETURN OF ALLOTMENTS.

When the allotment proceedings are completed, it is necessary within one month of completion to file with the Registrar a *Return of Allotments* (S. 42). This return must be made on the prescribed

Number of Company... ..... Form No. 45.

THE COMPANIES ACT, 1929.

RETURN OF ALLOTMENTS

(*a*) made the 1*st* day of *October*, 19..

SOURCE D'OR, LIMITED

A 5s. Companies Fee Stamp to be Impressed here.

Pursuant to s. 42 (1)

(To be delivered to the Registrar of Companies within one month after the allotment is made.)

(*b*) Number of the Shares allotted payable in cash, *Ordinary* .	25,000
Number of the Shares allotted payable in cash, *Preference*	10,000
Nominal amount of the Shares so allotted, *Ordinary*	£25,000
Nominal amount of the Shares so allotted, *Preference*	£50,000
Amount paid or due and payable on each such Share, *Ordinary* .	£1
Amount paid or due and payable on each such Share, *Preference*	£5
Number of Shares allotted for a consideration other than cash *Ordinary Shares*	15,000
Nominal amount of the Shares so allotted	£15,000
Amount to be treated as paid on each such Share	£1

The consideration for which such Shares have been allotted is as follows:—

Purchase of mining leases and assets in South Africa from the vendor George C. Wand.

(*a*) 1 *When a return includes several Allotments made on different dates, the dates of only the first and the last of such Allotments should be entered at the top of the front page, and the registration of the return should be effected within one month of the first date.*

2. *When a return relates to one Allotment only, made on one particular date, that date only should be inserted, and the spaces for the second date struck out and the word " made " substituted for the word " from " after the word Allotments."*

(*b*) *Distinguish between Preference, Ordinary, Redeemable Preference, etc.*

Presented by :—

Brown, Blank & Co.,
Spencer House,
South Place, E.C.

form, and must bear a 5s. impressed Companies Fee stamp. The front page of this statutory form is given above. The other pages consist of a list of the surnames, Christian names, addresses, and

descriptions of the persons to whom shares have been allotted, and the number and class of shares held by each. The form must be signed by an official, who must state whether he is Director or Manager or Secretary. No return of allotments is required in cases where the only shares issued are those subscribed for by the signatories to the Memorandum. The return must contain full particulars of the consideration received for any shares issued, either as fully or partly paid, for which no cash has been received; and, in addition, a duly stamped contract in writing, constituting the allottee's title to the shares, and stating the actual consideration for the shares, must be filed. If some of the shares to which the vendor is entitled are to be issued direct to the vendor's nominees, then a supplemental contract constituting their title or a duly stamped Form of Renunciation and Nomination should be filed If the contract is not in writing, the company must file a statement stamped with the same amount of duty and giving the same particulars as are required in the case of a written contract. If several allotments have taken place during the month, they may be included in one return. If allotments are made from time to time the company must in each case file a return within one month

It may be re-stated here that companies governed by the Companies Act, 1929, can issue shares at a discount under the provisions of S. 47, and not otherwise. That section is important, and is accordingly reproduced *in extenso*:—

(1) Subject as provided in this section, it shall be lawful for a company to issue at a discount shares in the company of a class already issued—

Provided that

(*a*) the issue of the shares at a discount must be authorised by resolution passed in general meeting of the company, and must be sanctioned by the Court,

(*b*) the resolution must specify the maximum rate of discount at which the shares are to be issued;

(*c*) not less than one year must at the date of the issue have elapsed since the date on which the company was entitled to commence business;

(*d*) the shares to be issued at a discount must be issued within one month after the date on which the issue is sanctioned by the Court or within such extended time as the Court may allow.

(2) Where a company has passed a resolution authorising the issue of shares at a discount, it may apply to the Court for an order sanctioning the issue, and on any such application the Court, if, having regard to all the circumstances of the case, it thinks proper to so do, may make an order sanctioning the issue on such terms and conditions as it thinks fit.

(3) Every prospectus relating to the issue of the shares and every balance sheet issued by the company subsequently to the issue of the shares must contain particulars of the discount allowed on the issue of the shares or of so much of that discount

as has not been written off at the date of the issue of the document in question. If default is made in complying with this sub-section, the company and every officer of the company who is in default shall be liable to a default fine.

Prior to November 1, 1929, it was illegal to issue any shares at a discount. It may, however, be remarked that the payment of commission for placing capital, sanctioned by S. 43 under certain conditions, amounts practically to an issue of capital at a discount.

Parliamentary companies governed by the *Companies Clauses (Consolidation) Acts*, 1845–89, have power, in certain circumstances, to issue shares at a discount.

Statutory Declaration.

The last step in the legal constitution of a new public company is the filing of a statutory declaration by the secretary or a director as required by S. 94, which states:—

(1) Where a company having a share capital has issued a prospectus inviting the public to subscribe for its shares, the company shall not commence any business or exercise any borrowing powers unless—

(*a*) shares held subject to the payment of the whole amount thereof in cash have been allotted to an amount not less in the whole than the minimum subscription; and

(*b*) every director of the company has paid to the company, on each of the shares taken or contracted to be taken by him and for which he is liable to pay in cash, a proportion equal to the proportion payable on application and allotment on the shares offered for public subscription; and

(*c*) there has been delivered to the registrar of companies for registration a statutory declaration by the secretary or one of the directors, in the prescribed form, that the aforesaid conditions have been complied with.

(2) Where a company having a share capital has not issued a prospectus inviting the public to subscribe for its shares, the company shall not commence any business or exercise any borrowing powers, unless—

(*a*) there has been delivered to the registrar of companies for registration a statement in lieu of prospectus; and

(*b*) every director of the company has paid to the company, on each of the shares taken or contracted to be taken by him and for which he is liable to pay in cash, a proportion equal to the proportion payable on application and allotment on the shares payable in cash; and

(*c*) there has been delivered to the registrar of companies for registration a statutory declaration by the secretary or one of the directors in the prescribed form that paragraph (*b*) of this sub-section has been complied with.

(3) The registrar of companies shall, on the delivery to him of the said statutory declaration, and, in the case of a company

which is required by this section to deliver a statement in lieu of prospectus, of such a statement, certify that the company is entitled to commence business, and that certificate shall be conclusive evidence that the company is so entitled.

(4) Any contract made by a company before the date at which it is entitled to commence business shall be provisional only, and shall not be binding on the company until that date, and on that date it shall become binding.

(5) Nothing in this section shall prevent the simultaneous offer for subscription or allotment of any shares and debentures or the receipt of any money payable on application for debentures.

(6) If any company commences business or exercises borrowing powers in contravention of this section, every person who is responsible for the contravention shall, without prejudice to any other liability, be liable to a fine not exceeding fifty pounds for every day during which the contravention continues.

(7) Nothing in this section shall apply to—

(*a*) a private company; or

(*b*) a company registered before the first day of January, nineteen hundred and one; or

(*c*) a company registered before the first day of July, nineteen hundred and eight, which has not issued a prospectus inviting the public to subscribe for its shares.

Companies Registered Abroad.

Before the *Companies Act,* 1907, a number of companies had been registered in Guernsey or elsewhere out of the United Kingdom, partly with a view to saving fees on registration, partly also with a view to escaping the provisions of the Companies Acts. But under SS. 35 and 52 of that Act, afterwards under S. 274 of the Act of 1908, and now under SS 343–353 of the 1929 Act (which considerably extend the earlier provisions), every company incorporated outside Great Britain which establishes a place of business within it is subject to certain provisions by which persons dealing with it are enabled to obtain information and to proceed against the company with greater facility. A company so registered must, within one month after establishing a place of business within Great Britain, file with the Registrar a certified copy of the Memorandum and Articles of the company, or its charter or statutes, a list of the directors, and the name and address of some person, or persons, resident in Great Britain, authorised to accept on behalf of the company service of process, and any notices required to be served on the company. It must also, in every year, file with the Registrar a balance sheet in such form and containing such particulars and including such documents as would be required to be laid before the company in general meeting if it were a company registered under the Companies Act. If the word "limited" is part of the title, the company must, in every prospectus inviting subscriptions for shares or debentures, state the country in which it is incorporated,

exhibit in every place where it carries on business the name of the company and its place of incorporation, and have the name of the company mentioned in legible characters in all billheads, letter paper, notices, advertisements, and other official publications.

Companies registered in any part of Ireland are included in the above provisions.

A company incorporated in the Channel Islands or the Isle of Man which establishes or has established and continues to have a place of business in England or Scotland must file the same documents as it would be required to file if it were registered in England or Scotland.

If any person issues, circulates or distributes in Great Britain any prospectus offering for subscription shares or debentures of any foreign company (whether it has a place of business in Great Britain or not), a copy of the prospectus must be filed. Such prospectus must contain certain information additional to that required in the prospectus of a company registered in Great Britain (SS. 354–355).

Issue of Debentures.

When debentures are offered for public subscription, a deposit is required upon application, and the balance is usually payable on allotment. Sometimes, however, payment is spread over several instalments. Applications for a debenture issue are recorded in a *Debenture Application and Allotment Book*, which, allowing for the difference in details, contains similar information with regard to the applications as that already described in connection with the issue of shares. The usual application form for debentures is so similar to that given at p. 160 in connection with shares that it is unnecessary to reproduce it.

If the issue is a large one, a *Debenture Holders Cash Book* and a *Debenture Call Book* (if necessary) are opened, and employed in the manner described with reference to the Shareholders Cash Book and Call Book. It is advisable also, when the number of debenture holders is large, to bring into use a *Debenture Interest Book*. This saves space in the cash book and facilitates checking. A suitable form of this book is given at p. 171.

It is usual to bring the totals of the Debenture Interest Book into the general books by means of a journal entry. Thus:—

		£	s.	d.	£	s.	d.
Debenture Interest Account	*Dr.*	1,000	0	0			
To Sundry Debenture Holders					775	0	0
Income Tax Account					225	0	0

When paid, the "Sundry Debenture Holders Account" will be closed, and, in due course, the income tax will be accounted for to the proper authorities in accordance with the Rules of the Income Tax Acts.

In large companies it is the practice to transfer the exact amount necessary for the service of each half-year's debenture interest to a separate banking account, for which a special pass book is issued

and on which special warrants are drawn. The Debenture Interest Book will show at balancing periods whether all the warrants have been cleared. If any remain outstanding, they will be shown in the Balance Sheet—on the one side as an outstanding liability for unclaimed interest, and on the other side as Cash at Bank (Debenture Interest Account).

REGISTER OF MEMBERS.

S. 95 says: (1) Every company shall keep in one or more books a register of its members, and enter therein the following particulars:—

(a) The names and addresses, and the occupations, if any, of the members, and in the case of a company having a share capital a statement of the shares held by each member, distinguishing each share by its number, and of the amount paid or agreed to be considered as paid on the shares of each member;

(b) The date at which each person was entered in the register as a member;

(c) The date at which any person ceased to be a member:

Provided that where the company has converted any of its shares into stock and given notice of the conversion to the Registrar of companies, the register shall show the amount of stock held by each member instead of the amount of shares and the particulars relating to shares specified in paragraph (a) of this sub-section.

As previously stated, the Application and Allotment Sheets are sometimes bound in book form for use as a Register of Members. If this is done, several additional columns must be added to the sheets as usually drafted.

Index.—If the company has more than fifty members, then unless the register of members is in such a form as to constitute in itself an index, the company must keep an index of the names of the members. Any alteration in the register which alters the index must be duly entered in the latter within fourteen days. The index, which may be in the form of a card index, must contain a sufficient indication in respect of each member to enable his account to be readily found (S. 96).

Form of Register.—There is no statutory form of register. Almost any form of allotment sheet will meet the requirements of S. 95, but a modern company requires modern appliances. In the great majority of cases a special register is kept. Large companies frequently employ a separate register for each class of share, and when this is done it is compulsory as well as convenient, as already mentioned, to prepare a complete alphabetical card index of members, showing the different holdings of each member and giving references to the particular registers in which details may be found. The present tendency, however, is towards loose-leaf ledgers which can be kept in alphabetical order, and obviate the necessity for an index.

Every member must be entered in the register. A shareholder who is not entered in the register can apply to the Court to order rectification of the Register by the inclusion of his name. A person whose name is wrongly removed from the Register still remains a member (*Barton* v. *L. & N.W. Rly. Co.*, [1890] 24 Q.B.D. 77). A practical form of Members' Register appears at p. 181. It has been combined, in accordance with modern usage, with the Share Ledger. In small companies the Transfer Register is also included in the book. The dual capacity of the records in a register of this kind are sometimes objected to, because it discloses to the public the company's financial relations with its members. If this is considered a valid objection, two books should be employed, one to comply with S. 95, and the other to be used as a ledger for recording the company's financial transactions with its members. Where very active dealings in the shares take place, the tendency is to record merely the statutory minimum of information in the Register, in order to economise time and labour in recording transfers.

The "date of entry" recorded in the register is usually the date of allotment or transfer. It has been held that the date to be entered is the actual date on which the entry is made in the register, hence the necessity for expedition in share transactions. This date is very important, since it is the date when, in the eyes of the law, membership begins. The date of "ceasing to be a member" is usually the date when the transfer is passed by the directors. The greatest care must be observed in respect of the dates entered in the register, for, in case of liquidation, as has been explained elsewhere, a person is liable for unpaid calls on shares formerly held by him until twelve months have elapsed from the date when he ceased to be a member of the company. S. 62 directs that every share issued must bear a distinctive number, hence the accommodation for the particulars of the distinctive numbers in the Share Register.

Inspection of Register.—The Register of Members commencing from the date of the registration of the company, and the Index of the names of members, must be kept at the registered office, and be open to inspection for at least two hours daily by members free of charge, and by the general public on payment of 1s., or such less sum as the company may prescribe, for each inspection (S. 98).

The right of inspection lapses on the supervention of liquidation proceedings, except as it may be granted by the Court. It is also temporarily suspended when the register is closed.

Closing the Register.—The intention to close the Register temporarily must be duly advertised (S. 99.) A company may close its Register for a period, or periods, not exceeding thirty days in the year. The usual practice is to "close the Register" for fourteen days prior to the Annual General Meeting. During this period dividend lists and a list of members entitled to vote at the meeting are prepared. Public companies usually notify in the Press the period for which their register will remain closed.

COMBINED REGISTER OF MEMBERS AND SHARE LEDGER.

Name.............................
Address...........................
Description ....

Date of entry as a member . ...
Date of ceasing to be a member ....

DR	Shares Acquired						DR	Cash due on Shares.										
Date.	No of Allotment or Transfer Deed	No of Shares. Acquired.	Class of Share.	Distinctive Numbers of Shares		Folio	Total Amount of Holding			Date of Calls	Details	Amount due per Share			Class of Share.	Total Amount Payable on Shares		
				From	To		£	s.	d			£	s	d		£	s.	d

Cash Paid on Shares				CR			Shares Disposed of.										CR
Due Date	How Paid.	When Paid	C B Folio.	Amount.			Date	No of Transfer Deed	Folio in Transfer Register	No of Shares Disposed of.	Class of Share.	Details	Distinctive Numbers		Total Value of Shares Disposed of.		
				£	s	d							From	To	£	s	d.

A "Balance" column is also useful to facilitate speedy reference.

Trusts may not be Registered.—It is important for the company secretary to remember that, with the exception of notifications from the Public Trustee (*Public Trustee Act*, 1906), no notice of any trust "expressed, implied, or constructive" may be entered upon the Register of Members of any company registered in England (S. 101). No person, therefore, can be registered as an executor or trustee. It is obvious that it is important that a company should not be liable in any way for the relations that may exist between a registered holder and those who may be equitably entitled to the shares. It would appear, however, that if the directors have knowledge that a transfer is being made in order to commit fraud or a breach of trust they must notify the fact to the party interested or they may become personally liable (*Société Générale* v. *Tramways Union*, [1885] 14 Q.B.D. 424). In addition to the protection afforded by S. 101, many companies protect themselves still more closely, by means of a special clause in the Articles exempting them from all liability to recognise any interest or charge whatsoever. In Scotland notices of trusts are recorded in the register.

Distringas.—A company is, however, bound to accept a notice in lieu of distringas, i.e. a notice purporting to charge the shares or stock with payment of a judgment debt. By *Order* 46 of the Rules of the Supreme Court anyone wishing to place a distringas upon stock or shares must swear an affidavit in the prescribed form and file it at the Central Office of the High Court of Justice, and also give particulars of the interest claimed in such stock or shares, appending thereto the notice in proper form. On receipt of an office copy of the affidavit and a duplicate of the notice under the seal of the Central Office, the company must refrain from accepting any transfer of the shares, or paying a dividend thereon, unless it first gives eight days' notice of its intention so to do to the person lodging the distringas. That person may then apply to the Court to restrain the transaction. If the company hears nothing within the eight days, it can proceed as if the notice in lieu of distringas had not been given.

Rectification of Register.—If any person claims to have been improperly placed on, or omitted from, the register, he may, by S. 100, apply to the Court to have the register rectified. Such applications usually arise as the result of liquidation proceedings. In order to succeed, an applicant must prove irregular allotment, fraudulent transfer, misrepresentation of material facts; or submit other valid reasons for being granted the relief sought.

Copies of Register.—Copies of the register or any part thereof may be demanded by anyone at a charge of 6d, or such less sum as the company may prescribe, per 100 words. Any copy so required must be sent to the applicant within ten days after the application is received by the company [S. 98, s -s (2)]. Every figure counts as a word. Members have no right to make their own extracts from, or copies of, the register.

OTHER NECESSARY BOOKS OF RECORD.

If a company has power to convert its fully paid shares into stock, and exercises it, a *Register of Stock Holders* should be kept (see p. 184), also a *Stock Register* containing particulars of the shares converted (see p. 184).

A *Register of Probates* and other grants of administration should be kept to record brief particulars of the registration of probate, or letters of administration respecting the estates of deceased shareholders If the company is satisfied as to the identity of the late shareholder and the authenticity of the documents, it will stamp and register the grant (the Articles commonly provide that the company may charge a fee of 2s. 6d. for this service). Subject to any contrary provision in the Articles, executors, having asserted their title by registering probate, are under no obligation to have the testator's shares transferred into their own names. indeed, they would be unwise to do so, in the case of partly paid shares, because they would then assume personal liability for the unpaid calls. Once probate is registered, a transfer of the shares can be executed at any time should it become necessary

A Register of Powers of Attorney is also essential in practice, in order to record brief particulars of the grantors and holders of these instruments and the dates on which they expire. No transfer signed under a Power of Attorney can be dealt with until the instrument has been properly registered A fee of 2s. 6d is usually charged for registration.

Register of Directors.—The company must keep a register of its directors or managers, in which must be recorded, in the case of an individual, his present Christian name and surname, and former Christian name or surname, his usual residential address, his nationality, and if that nationality is not the nationality of origin, his nationality of origin and his business occupation, if any, or, if he has no business occupation but holds any other directorship or directorships, particulars of that directorship or of some one of those directorships; and in the case of a corporation, its corporate name and registered or principal office. A copy of the register must be registered with the Registrar of Companies within fourteen days from the appointment of the first directors, and any change among the directors or in any of the particulars must be registered within fourteen days from the happening of the change. The register may be inspected free by members, and at a charge not exceeding one shilling by other persons (S. 144).

A Register of Charges is required to be kept at the company's office in order to satisfy S. 88. It must contain particulars of all mortgages and other charges given by the company, a brief description of the property charged, the amount of the charge, and, except in the case of securities to bearer, the names and addresses of the mortgagees (see p. 185)

A copy of every instrument creating any charge requiring registration with the Registrar must be kept at the registered office of the company (S 87). Such copies, and the company's

STOCK HOLDERS REGISTER.

Name of Stock Holder ....
Address ....

Description ....

Stock Acquired.							Stock Transferred.							Remarks.
Date.	No of Transfer	Name of Transferor	Folio	Amount Acquired.			Date.	No of Transfer.	Name of Transferor	Folio	Amount Transferred.			
				£	s	d.					£	s	d	

STOCK REGISTER.

Holders.				Particulars of Shares Converted.							Particulars of Stock Created					Remarks.
Name	Address.	Description.	Share Ledger Folio.	Certificate Number	No. of Shares	Distinctive Numbers		Amount			Certificate Number	Stock Register Folio.	Amount			
						From	To	£	s.	d			£	s	d	

REGISTER OF CHARGES.

No of Charge.	Date of Mortgage or Charge.	Brief Description of the Property Charged	Rate of Interest.			Amount of the Charge.			Mortgagees		Date Filed with Registrar.	Date of Memorandum of Satisfaction
			£	s	d	£	s.	d	Name	Address.		

DEBENTURE HOLDERS REGISTER.

Name · *Robert Radford* Address · 162 *Sutton Road, Streetley* Description *Grocer.*

Debentures Acquired										Debentures Disposed of								
Date.	No of Allotment Letter or Transfer Deed	Name of Transferor.	Ledger Folio.	No of Bonds or Certificates.	Distinctive Numbers of Bonds		Value			Date.	No of Transfer	Name of Transferee.	No of Bonds or Certificates	Distinctive Numbers of Bonds		Value		
					From	To	£	s	d					From	To	£	s.	d.
19. Dec. 8	321	Dick, Geo	32	5	5	9	250	0	0	19. Jan 2	581	Coe, John	2	5	6	100	0	0

TRANSFER REGISTER.

Date when Lodged	No. of Transfer Deed	When Passed by Board.	Initials of Chairman.	Share Ledger Folio	Transferor Name	Transferor Address	Transferor Description	No of Shares Transferred	Amount £	Amount s	Amount d	Consideration Paid £	Consideration Paid s	Consideration Paid d
19.. Nov. 9	171	19 Dec. 6	W S.	371	Dickson, Hugh	372 South Place, E.C	Tobacco merchant	100	100	0	0	110	0	0
,, 10	172	,, 6	W S	298	Rogers, John	Overstrand, Norfolk	Farmer	200	200	0	0	219	10	0

Distinctive Numbers From	Distinctive Numbers To	Number of Old Certificate.	Transferee. Name	Transferee. Address	Transferee. Description.	Number of New Certificates To Transferee	Number of New Certificates Balance Certificate	Share Ledger Folio	Remarks.
342	441	721	Easlea, George	472 Moorgate St., E C.	Accountant	1041	—	371	
681 940	780 1039	364 891	Leigh, Arthur	Combe Martin, Devon	Market gardener	1042	—	372	

Register of Charges, may be inspected by any person on payment of 1s. (or such less sum as the company may prescribe), and by any member or creditor free of charge (S 89).

The mortgage or charge may be given in respect of the uncalled capital, unpaid calls, land, property, book debts, or other assets of the company, or it may be a floating charge, or any charge which, if granted by a private person, would require registration as a bill of sale. All such charges must be registered with the Registrar within twenty-one days of their creation otherwise they are void as against creditors if the company goes into liquidation (S. 79). The company must also register particulars of all charges existing on property acquired by it (S 81)

The Registrar records particulars of the charges in a register forming part of the company's "file" at Somerset House, which is open to inspection on payment of 1s. (S. 82).

The fees payable on registering charges with the Registrar are: 10s. when the charge does not exceed £200, and £1 when it exceeds £200. When debentures are issued in a series these fees become payable on the first debenture of the issue, and a fee of 6d. on each subsequent debenture.

Debentures issued in a series containing, or giving by reference to any other instrument, any charge to the benefit of which the debenture holders of that series are entitled *pari passu*, must be registered within twenty-one days of the date of execution of the first of the series, or, if the issue is secured by deed, within twenty-one days of the execution of the trust deed. A copy of the Registrar's certificate of registration must be endorsed on every debenture or debenture stock certificate.

When a mortgage is paid off, a *Memorandum of Satisfaction*, in the prescribed form, should be filed (fee, 5s.). A note that the liability is discharged is then entered in the Register by the Registrar (S. 84).

Register of Debenture Holders.—It is usual, but not compulsory, since debenture holders are not members of the company, to keep a Register of Debenture Holders containing the names, addresses, debentures acquired, debentures disposed of, and any other useful particulars. If kept, such a register must be open to inspection by debenture holders and shareholders, who may also demand copies of the whole, or any part, of the register on payment of the prescribed fee (S. 73). A form of Debenture Holders Register is given at p. 185.

Register of Debenture Stock Holders.—When debenture stock has been issued, a Register of Debenture Stock Holders is kept. This register is practically identical in form with, and gives similar information to, the Stock Holders Register shown at p. 184.

Register of Sealed Documents—Every limited company must have a seal on which its name is engraved in legible characters. The seal is equivalent to the signature of a private person. Generally, the signatures of two or more directors, with the counter signature of the secretary, are necessary to every document to

which the seal is affixed. The signatures attest that the seal has been duly attached. A resolution should be passed, and recorded in the Directors' Minute Book, authorising the affixing of the seal to documents requiring it. Among the documents which require to be sealed are· deeds, powers of attorney, share certificates, bearer share warrants and debentures. The Register of Sealed Documents is used for recording brief particulars of all documents sealed, with the dates, and the names of the directors present when they were sealed.

Register of Transfers.—This book is not legally necessary, except in the case of parliamentary companies, but it is essential that a proper record of all transfers of shares and stock accepted by the company should be kept. A form of Transfer Register is given at p. 186. It is usual to employ separate registers, each distinctively bound, for the different classes of shares. Some companies, however, do not employ registers, but paste the actual transfer deeds into guard-books, and post direct from them to the share ledgers If that course is followed, the guard-books must contain particulars of the numbers of the old and the new certificates, the distinctive numbers of the shares, and the folios of the accounts of the members concerned.

Share and Stock Transfers.

All securities can be sold by transfer, whether bearer, inscribed, or registered securities. Bearer securities usually pass by mere delivery. In the case of inscribed securities, the owner, or the owner's attorney acting under a power, must attend personally at the inscribing office.

Form of Transfer.—For registered securities, the form of transfer accepted by the particular company must be used. If the company is subject to the provisions of the *Companies Clauses (Consolidation) Act*, 1845, the transfer must be by deed. In some cases the form of transfer to be used is set out in the Articles. Table A, Clause 18, gives a form of transfer.

In most cases the common transfer form, shown opposite, is accepted. This form, which is a transfer by deed, can be obtained from any law stationer. Its use is compulsory if a Stock Exchange quotation is desired. Companies will not accept Transfers which deal with more than one class of share in the same deed. Verbal transfers are now illegal (S. 63).

Registration Fee.—The registration fee for transfers charged by the Bank of England and by most companies is 2s. 6d. per deed, but occasionally the fee varies with the number of shares covered by the transfer. It is usual to post all transfer fees received to a Transfer Fee Account, and, in due course, the total of this account appears separately set out in the Profit and Loss Account.

Transfer Stamp Duties.—All transfers of shares or stock for valuable consideration are subject to an *ad valorem* stamp duty, which is paid by the purchaser of the shares. The *Stamp Act*,

(TRANSFER FORM.)

Certificate No .. relating to Shares No. . to . forwarded to Company's office by Jan. 28, 19 .

Examined by . . . . Secretary

Birmingham Stock Exchange.

Coupon for £

in consideration of the Sum of [See NOTE.]

paid by

hereinafter called the said Transferee ,
Do hereby bargain, sell, assign, and transfer to the said Transferee :—

of and in the undertaking called the

To HOLD unto the said Transferee , Executors, Administrators, and Assigns, subject to the several conditions on which hold the same immediately before the execution hereof, and the said Transferee , do hereby agree to accept and take the said , subject to the conditions aforesaid.

As WITNESS our Hands and Seals, this Day of in the Year of our Lord One Thousand Nine Hundred and .

Signed, sealed, and delivered, by the above-named .... in the Presence of

* Witness's { Signature, Address, Occupation,

SEAL

Signed, sealed, and delivered, by the above-named .. . . in the Presence of

* Witness's { Signature, Address, Occupation,

SEAL

Signed, sealed, and delivered, by the above-named .... in the Presence of

* Witness's { Signature, Address, Occupation,

SEAL

Signed, sealed, and delivered, by the above-named .... in the Presence of

* Witness's { Signature, Address, Occupation,

SEAL

NOTE.—The Consideration-money set forth in a transfer may differ from that which the first Seller will receive, owing to sub-sales by the original Buyer; the Stamp Act requires that in such cases the Consideration-money paid by the Sub-purchaser shall be the one inserted in the Deed, as regulating the *ad valorem* Duty, the following is the *Clause* in question :—

"Where a Person, having contracted for the purchase of any Property, but not having obtained a Conveyance thereof, contracts to sell the same to any other Person, and the property is, in consequence, conveyed immediately to the Sub-purchaser, the Conveyance is to be charged with *ad valorem* Duty in respect of the Consideration moving from the Sub-purchaser."—[Stamp Act, 1891, Section 58 (4).]

* When a Transfer is executed out of Great Britain it is recommended that the Signatures be attested by H M Consul or Vice-Consul, a Clergyman, Magistrate, Notary Public, or by some other person holding a public position—as most Companies refuse to recognise Signatures not so attested.

1891, S. 17, makes it incumbent upon companies to see that transfers lodged with them are adequately stamped The stamps must be impressed and, by the *Finance Act*, 1920, S. 36, s.-s. (1), in accordance with the following scale.—

Consideration not exceeding £	Stamp Duty £ s d	Consideration not exceeding £	Stamp Duty. £ s. d.
5	0 1 0	125	1 5 0
10	0 2 0	150	1 10 0
15	0 3 0	175	1 15 0
20	0 4 0	200	2 0 0
25	0 5 0	225	2 5 0
50	0 10 0	250	2 10 0
75	0 15 0	275	2 15 0
100	1 0 0	300	3 0 0

Over £300, the duty is 10s. for every additional £50, or fraction thereof. These duties must be paid within thirty days of the execution of the deed, or the instrument is void These rates do not apply to transfers of Bank of England stock, for which the stamp duty is 15s. 6d. for any amount, nor to any Colonial stock forming part of the Public Debt of the Colony, if the register is kept in the United Kingdom, and the stock is declared under the Colonial Act, 1877 The rate on these stocks is 5s. for every £100, or fractional part of £100, of the nominal amount transferred.

When doubt arises whether a transfer is adequately stamped, it should be sent to the Controller of Stamps, Somerset House, who will assess the duty payable and affix his adjudication stamp free of charge (*Stamp Act*, 1891, S. 12). The proper stamp should be affixed in the first instance, as documents inadequately stamped will only be admitted in evidence in a Court of Law on payment of the statutory penalty Some Colonial Government and British municipal stocks are transferable free of duty. In these cases, representative of what appears to be a growing practice, the duty is compounded for with the Commissioners of Inland Revenue.

Nominal Transfers.—When the consideration for the transfer is merely nominal, e.g. the transfer of a specific legacy under a will, transfer upon appointment of a new trustee, or when shares transferred to a lender as security for a loan are re-transferred to the owner on repayment of the loan, the charge made is 10s. per deed. If, however, the transfer represents an exchange of shares, or a gift completed in the lifetime of the donor, or is in satisfaction of a debt, then the full *ad valorem* stamp duty is payable. Usually it is necessary, when the consideration is claimed to be nominal, to satisfy the secretary of the company that such is the fact, and frequently a brief note of the facts is endorsed on the back of the transfer, e.g. "These shares are transferred to a mere nominee of the transferor's."

The Inland Revenue Form No. 19, which should be filled in with explanations where necessary and attached to the transfer deed when presented for stamping, is given opposite.

Certificates must Accompany Transfers.—When transfers are deposited for registration they must be accompanied by the

INLAND REVENUE.

STAMP DUTIES.

Transfers of Shares, etc., where the consideration is stated to be a nominal amount.

This form when duly signed and stamped by an Inland Revenue Marking Officer may be accepted by Registering Officers of companies as authority to register the transfer described herein when stamped with the fixed duty of 10s.

The appropriate information should be entered in the spaces overleaf, and the form, duly signed in accordance with the directions, should be produced to the Marking Officer together with the transfer The Marking Officer will intimate the nature of any further information required before he can sign the form

NOTE.—*Ad valorem* duty is payable whatever be the consideration shown on the transfer where the transfer is made—

on sale,
in full or part satisfaction of a pecuniary bequest,
in liquidation of a debt,
in exchange for other securities,
by way of gift.

PARTICULARS

Name(s) of Transferor(s).	
Name(s) of Transferee(s).	
Numbers and Descriptions of Shares, etc	
Name of Company.	
Circumstances in which transfer is made, e g : On the appointment of a new trustee of a pre-existing trust, or on the retirement of a trustee. To a mere nominee of the transferor where no beneficial interest in the property passes The circumstance giving rise to the transfer should be stated. As security for a loan; or a re-transfer to the original transferor on repayment of a loan N B.—A transfer from a vendor made by direction of a purchaser to a person who is to hold the shares as security for a loan made to the purchaser, is liable to *ad valorem* duty To a residuary legatee; the shares forming part of the residue due to him under a will. To a beneficiary under a will who is entitled to the shares as a specific legacy To transfer to the party or parties entitled, shares, etc., forming part of the property of a person dying intestate. To a beneficiary under a settlement on distribution of the trust funds, of shares, etc , forming the share, or part of the share, of those funds to which the beneficiary is entitled in accordance with the terms of the settlement. If the transfer does not fall clearly within any of the above categories, an explanation of the facts should be given.	

This form should be signed by—
(*a*) both transferor and transferee, or
(*b*) a member of a Stock Exchange or a solicitor acting for one of the parties, or
(*c*) an accredited representative of a bank When the bank or its official nominee is a party to the transfer, the certificate to be given may be to the effect that " the transfer is excepted from the provisions of Section 74 of the *Finance* (1909–10) *Act*, 1910."

Signed ....
Date ....
Address ....

Signed ....
Date ....
Address ....

For use of Marking Officer { *Signature* .... *Office Stamp* ....

transferor's share certificate. A receipt is usually given to the depositor setting out the name of the transferee, the shares covered by the transfer, and their distinctive numbers, the amount of the transfer fee paid, and an acknowledgment that the relative certificate, or certificates, were attached to the transfer. The following is an example of such a receipt.

RAYON D'OR, LTD.

SPENCER HOUSE,
LONDON, E.C.
October 16, 19...

Messrs Stocks & Co. have lodged for registration, subject to the approval of the directors, the transfer stated hereunder :—

Name of Transferee	Number of Transfers	Number of Shares.	Distinctive Numbers	
			From	To

RECEIVED ...., being 2s. 6d per deed.
£ : : .

The Certificate will be ready in exchange for this receipt on *Novembe 5, 19...*

....
for RAYON D'OR, LTD.

Similar details are recorded on the counterfoil of the Transfer Receipt Book. These receipts are exchangeable in due course for the new share certificates Many companies make it a practice to send a printed notification to the transferor advising him of the deposit of the deed, so that, in case of fraud, he may protect his interests.

Scrutiny of Transfers.—Before entering the transfer in the register, care must be taken to ascertain that it is in order and bears the proper stamp duty. The transfer must be properly dated, and the transferor's signature be verified. The names, addresses and descriptions of both transferor and transferee must appear in the transfer, and it must be signed by both parties and both signatures must be witnessed. If either party resides abroad, the signature should be attested by a consul, notary, or other public official. The consideration money stated in the transfer should be compared with the market price of the shares, and the distinctive numbers of the shares agreed with those on the certificates. If any alterations, interlineations, or erasures occur in the transfer deed, they should be initialled by both parties.

When in order, the transfers are submitted to the Board with the new certificates, a resolution accepting the transfers is passed and recorded in the minutes, and the Register is initialled by the chairman.

Certification.—When two or more transfers have been deposited covering a sale of shares represented by one certificate, it is customary to deposit the certificate either with the company or the Secretary of the Stock Exchange where the shares were sold. A signed note is then added to the various transfers to the effect that "The certificate for the within-mentioned shares has been lodged with the company" This note is usually affixed to the transfer deed by means of a rubber stamp, and is illustrated on the transfer deed form shown at p. 189.

This procedure, which is known as *Certification,* has been recognised legally. It facilitates business, satisfies the brokers concerned, and overcomes the difficulty of the single certificate. Usually no fees are charged for certification.

Balance Tickets.—When certificates are lodged for more shares than are necessary to satisfy the accompanying transfers, the secretary of the company issues, in respect of the surplus, a temporary certificate or "ticket" to the original holder, known as a *Balance Ticket* (see p. 194), for the shares remaining after the transfers have been satisfied. These balance tickets are accepted on the Stock Exchange, and are subsequently exchangeable for definitive certificates on payment of a fee, usually 1s. Companies transacting much certification business should keep a *Register of Certifications and Balance Tickets,* a specimen page of which appears at p. 194. Some companies provide for the record of certifications on the backs of their certificates.

Blank Transfer.—This term is used to indicate a transfer which has been executed by the transferor only, the space for the name of the transferee and the date of execution being left blank. Transfers of this kind, when attached to the relevant stock or share certificates, are frequently deposited as security for loans. It would appear from *Powell* v. *London and Provincial Bank,* [1893] 2 Ch. 555, that such transfers are ineffective when the regulations of the company require transfers to be by deed. They are, however, still commonly used, and probably afford a good equitable security.

Forged Transfers.—The transferee under a forged transfer obtains no rights thereunder, and the company need not (unless it has adopted the *Forged Transfers Acts,* 1891 and 1892, or is bound by "estoppel") compensate him for his loss. If, however, the transferee in such a case has acted on the faith of a share certificate issued by the company and has incurred loss, he can obtain compensation from the company (*Bloomenthal's Case,* [1897] A.C. 156). The company can also be compelled, by the true owner, to replace his name on the register of shareholders if it has been removed. It is usual for the company to write to the transferor of shares informing him of the proposed transfer, but he is not bound to reply to such a letter and is not prejudiced if he fails to do so.

A special reserve fund may be raised, if desired, under the Forged Transfer Acts for the purpose of compensation, but the more modern practice adopted by many companies is to provide for possible loss in this direction by taking out a Lloyd's Policy.

BALANCE TICKET.

(*Counterfoil.*) No. 221.

Date *March 16, 19 ..*
To whom issued :—
E. Ory & Co.

Number of Shares	Distinctive Numbers	
	From	To
100	*3120*	*3219*

Shareholder's Name —
M. Durand.

Number of New Certificate . *5642.*
When due . *March 31, 19..*

(*Ticket.*) No. 221.

RAYON D'OR, LIMITED,
3692 Finsbury Circus,
London, E.C.

No 452.

Balance Receipt for *100* Ordinary Shares.
.. Preference Shares

To whom issued · *E. Ory & Co*

Distinctive Numbers		Shareholder's Name.
From	To	
3120	*3219*	*M Durand*

The New Certificate may be exchanged for this ticket on or after *March 31, 19...*

REGISTER OF TRANSFERS CERTIFIED AND BALANCE TICKETS ISSUED.

Date.	By Whom Lodged for Certification	Certificate Lodged in Name of.	Certificate No.	No of Shares	Distinctive Numbers		Name of Transferee.	No. of Shares	Distinctive Numbers		Balance Ticket Issued.				Examined By.	Remarks
					From	To			From	To	No of Ticket.	No. of Shares	Distinctive Numbers From	Distinctive Numbers To		
19 *Jan. 1*	*D McKee & Co*	*J. Laing*	*212*	*1,000*	*10001*	*11000*	*W Cutbush*	*100*	*10001*	*10100*	*36*	*400*	*10601*	*11000*		
							P Blair	*500*	*10101*	*10600*						
				1,000				*600*				*400*				
Jan. 3	*W. Standeud*	*W. Dreer*	*411*	*500*	*2601*	*3100*	*W. Dod*	*50*	*2601*	*2650*						
							X. Olibo	*450*	*2651*	*3100*						
				500				*500*								
Jan. 4	*M Hoste*	*J. Dupuy*	*616*	*100*	*3120*	*3219*	*S. Spong*	*50*	*3120*	*3169*	*37*	*50*	*3170*	*3219*		
				100				*50*				*50*				

Corporations and Partnerships.—A corporate body, if its Articles permit, can be registered as a shareholder in other companies, and may, through a representative, take part in the meetings of companies in which it holds shares (S. 116). Ordinary partnership firms, however, should not be accepted as transferees of shares, except in the names of the individual partners as joint holders.

Power of Directors to Refuse Transfers.—The Courts are jealous of the rights of shareholders to a free market for their shares, and for that reason, in the absence of express provision in the Articles, the directors have no power to refuse transfers. Articles of Association usually empower the directors to decline transfers at their discretion in certain cases—usually transfers of partly paid shares, or shares on which the company has a lien—to persons whom the directors may not approve. But if they exercise this power the directors must have acted *bona fide*, or the Courts will compel registration. Notice of refusal to register a transfer must be sent to the transferee within two months of the date on which the transfer was lodged with the company (S. 66).

The recent case of *Edwards* v. *Ransomes and Rapier*, [1930] 170 L.T. 56, illustrates the position of executors.—

An Executor had notified to a Company the death of the holder of debentures, and his name was entered on the Register of Members in his representative capacity. He was one of the residuary legatees, and agreed to take the debentures as part of his share.

He claimed to be registered as owner of the debentures, but the Company refused to effect this except upon completion of the usual transfer.

It was held that the Company were bound to register the person entitled, and as the Executor had already been registered in his representative capacity, they ought now to register him as owner, the transfer being a mere formality.

Company Registrar.—Companies whose transfer work is heavy usually appoint a "Registrar," who is made responsible for all transfer work, for the payment of dividends and interest, and for other work connected with the capital of the company. In some cases the company's auditors carry out a special "transfer audit."

Debenture Transfers.

Debentures are subject to the same transfer regulations as shares. A separate *Debenture Transfer Register* is therefore kept to record debenture transfers. The details recorded in this register and the procedure of transfer are practically identical with the foregoing regulations in connection with shares, and need not therefore be repeated.

Possession of a bearer bond is in itself *prima facie* proof of ownership. Ownership of bearer debentures can be transferred by mere delivery, but, as previously stated, bearer securities are not greatly favoured by British companies.

Register of Bearer Bonds—If bearer bonds are issued, a register must in practice be kept for them, recording the date, place, and particulars of issue, and the distinctive numbers or marks of the bonds, also particulars of the bonds redeemed from time to time, etc.

The ownership of any bond at any particular time is, of course, unknown, and is only revealed when the *Talon* is presented for a new set of interest coupons A *talon* is a certificate attached to bearer bonds entitling the holder to a fresh sheet of coupons when that originally supplied is exhausted. *Lost coupons* are only replaced upon execution by the holder of the bond of a very stringent indemnity.

Registered debentures must be transferred in the manner required by the Articles, or the conditions of issue, or, in the absence of any stipulations, by means of a "common form" deed. Transfers must bear the same *ad valorem* stamp as is required for shares, and must be filed with the issuing company. In the case of registered debenture bonds it is usual to endorse the transferee's name on the original bond and to forward it to him after registration. Many such debentures are issued with a printed form of endorsement. The usual transfer fee is 2s. 6d. per £100.

As debentures are issued for fixed sums, e.g. £50 or £100, they can only be transferred as a whole, but in the case of debenture stock any sum can be transferred. If a part only of a debenture stock holding is transferred, it is necessary to issue new certificates. If debentures (or shares) are held in the joint names of two or more holders, every holder must be a party to the transfer.

Making a Search.

As frequent reference has been made to the right of the public to inspect various company documents, it may be useful to explain briefly the method of "making a search."

The searcher must attend at Room 156, Somerset House, where he will find large registers, in duplicate sets, containing the names of all the limited companies on the register, arranged in periods of years. Each company is allotted an official number. The name of the company whose file it is desired to peruse, with its official number and the name and address of the searcher, must be entered on an official form, obtainable on payment of 1s. The form is then handed over to an official in the search room, and in due course the searcher is provided with the company's file, which he may study for half an hour. He may make brief notes from the file, not exceeding a folio altogether: but if he requires longer extracts he must order them, and pay for such certified copies or extracts at the official rate appointed by the Board of Trade, not exceeding sixpence for each folio of seventy-two words (S. 314). The search rooms are closed at 4 o'clock.

There is also a Register of Mortgages and Charges, the register being placed at the end of the company's file.

Several agencies make a speciality of conducting searches for clients, and their employment ensures despatch and secrecy.

Annual Return.

In addition to the initial statement of nominal capital required on the registration of a company and the returns of any increases of capital that may occur from time to time, every limited company

must make an Annual Return of its share capital (SS. 108–110). A facsimile of the official form of this return is given at pp. 198–201. The return must be made up to the fourteenth day succeeding the first, or only, ordinary general meeting of the company once at least in each year. It must be completed within fourteen days of that date, and a copy, signed by a director or by the manager or by the secretary, must be filed (fee 5s.) with the Registrar [S. 110, s.-s. (1)].

It is unnecessary to note here the information which must be contained in the return. The student should carefully study the requirements as set out in S. 108 and the return itself. It will be noted at once that careful distinction must be made between the shares issued and paid for in cash and those issued for considerations other than cash, and that details are required of the calls outstanding, shares forfeited, commissions paid, etc.

It has already been remarked that the audited *Balance Sheet*, which forms an essential part of the return in the case of *public* companies, is not required of *private* companies, although the latter are not otherwise exempt from filing the return. Neither is the return demanded from assurance companies registered under the Act, since their accounts are filed in accordance with the requirements of the *Life Assurance Companies Act*, 1909. As to the form of the Balance Sheet and the documents to be annexed thereto, see pp. 199–200.

The student will note that no Trading or Profit and Loss Account, except in so far as the balance of the latter account may form an item in the Balance Sheet, need be filed.

The original annual return is filed at Somerset House, as stated above, and a copy is made in the space provided at the end of the Register of Members, or is inserted in the Register, in accordance with the requirements of S 110, s.-s. (1). The copies are subject to inspection in the same way as the Register of Members, of which they are considered to be part [S. 110, s.-s. (2)]. A registration fee of 5s. is payable on filing the Annual Return.

Private Limited Company.

There is no statutory definition of a *public* limited company. In one sense all companies registered under the Companies Act are public. But when a distinction is drawn, in the legal sense, all companies other than private companies are deemed to be public companies. A *private* limited company is specially defined by S. 26 as one which by its Articles of Association—

(*a*) Restricts the right to transfer shares; and

(*b*) Limits the number of its members to fifty, not including persons who are in the employment of the company and persons who, having been formerly in the employment of the company, were while in that employment, and have continued after the determination of that employment to be, members of the company; and

(*c*) Prohibits any invitation to the public to subscribe for any shares or debentures of the company.

No. of Company........ Form No. 6A.

THE COMPANIES ACT, 1929.

A 5s. Companies Registration Fee Stamp must be *impressed* here.

As required by Part IV of the Companies Act, 1929.

ANNUAL RETURN OF THE *RAYON D'OR* COMPANY, LIMITED, MADE UP TO THE *7th* DAY OF *February*, 19.. (BEING THE FOURTEENTH DAY AFTER THE DATE OF THE FIRST OR ONLY ORDINARY GENERAL MEETING IN 19..).

The address of the registered office of the Company is as follows:—

Spencer House, South Place,
London, E.C. 2.

SUMMARY OF SHARE CAPITAL AND SHARES.

1. Nominal Share Capital, £200,000 Divided into* ..	*100,000 Ordinary* Shares of *£1* each *100,000 Preference* Shares of *£1* each	
2. Total Number of Shares taken up * to the 7th day of February, 19 , being the date of the Return (which number must agree with the total shown in the list as held by existing members) ..	*£100,000 Ordinary Shares* *£50,000 Preference Shares.*	
3 Number of Shares issued subject to payment wholly in cash	150,000	
4. Number of Shares issued as fully paid up otherwise than in cash ..	50,000	
5. Number of Shares issued as partly paid up to the extent of .... per share otherwise than in cash ..	*Nil.*	
6. †Number of .... Shares (if any) issued at a discount		
7. Number of .... Shares (if any) issued at a discount		
8 Total amount of discount on the shares which has not been written off at the date of this Return	£	*Nil.*
9. ‡There has been called up on *each* of *100,000 Ordinary* Shares	£	*1.*
10 There has been called up on *each* of *50,000 Preference* Shares	£	*1.*
11 There has been called up on *each* of ... . Shares . ..	£	*Nil.*
12. §Total amount of Calls received, including payments on application and allotment	£	*Nil.*
13. Total amount (if any) agreed to be considered as paid on ... . Shares which have been issued as fully paid up otherwise than in cash	£	*Nil.*
14 Total amount (if any) agreed to be considered as paid on .... Shares which have been issued as partly paid up to the extent of .. .. per Share otherwise than in cash	£	*Nil*
15 Total amount of *Calls* unpaid	£	*Nil.*
16 Total amount of the sums (if any) paid by way of Commission in respect of any shares or debentures or allowed by way of Discount in respect of any debentures since the date of the last Return ..	£	*Nil.*
17 Total number of Shares forfeited		*Nil*
18 Total amount paid (if any) on Shares forfeited	£	*Nil*
19. Total amount of Shares for which Share Warrants to bearer are outstanding	£	*Nil*
20. Total amount of Share Warrants to bearer issued and surrendered respectively since the date of the last Return	Issued £ Surrendered £	*Nil.* *Nil.*
21 Number of Shares comprised in each Share Warrant to bearer		
22. Total amount of the indebtedness of the Company in respect of all mortgages and charges of the kind which are required (or, in the case of a Company registered in Scotland, which, if the Company had been registered in England, would be required) to be registered with the Registrar of Companies under the Companies Act, 1929	£	*Nil.*

* Where there are Shares of different kinds or amounts (e.g Preference and Ordinary, or £1 and 1s), state the number and nominal values separately.
† If the Shares are of different kinds, state them separately
‡ Where various amounts have been called, or there are Shares of different kinds, state them separately.
§ **Include what has been received or forfeited as well as on existing Shares.**

COPY OF LAST AUDITED BALANCE SHEET OF THE COMPANY.

NOTE.—Except where the Company is (1) a "Private Company" within the meaning of Section 26 of the Companies Act, 1929, or is (2) an Assurance Company which has complied with the provisions of Section 7 (4) of the Assurance Companies Act, 1909, this Return must include a written copy, certified by a Director or by the Manager or Secretary of the Company to be a true copy, of the last balance sheet which has been audited by the Company's auditors (including every document required by law to be annexed thereto) together with a copy of the report of the auditors thereon (certified as aforesaid), and if any such balance sheet is in a foreign language there must also be annexed to it a translation thereof in English certified in the prescribed manner to be a correct translation. If the said last balance sheet did not comply with the requirements of the law as in force at the date of the audit with respect to the form of balance sheets, there must be made such additions to and corrections in the said copy as would have been required to be made in the said balance sheet in order to make it comply with the said requirements, and the fact that the said copy has been so amended must be stated thereon.

PRIVATE COMPANY.

Certificates to be given by a Private Company.

A. "I certify that the Company has not since the date of the last * Annual Return issued any invitation to the public to subscribe for any shares or debentures of the Company."

(Signature)

(State whether Director or Secretary.)

B. Should the number of members of the Company exceed fifty, the following certificate is also required:—

"I certify that the excess of members of the Company above fifty consists wholly of persons who are in the employment of the Company and/or of persons who, having been formerly in the employment of the Company were while in such employment, and have continued after the determination of such employment to be, members of the Company."

(Signature)

(State whether Director or Secretary.)

NOTE.—Banking companies must add a list of all their places of business.

The Return must be signed at the end by a Director or by the Manager or Secretary of the Company.

Delivered for filing by .

* In the case of the first Annual Return, strike out the words "last Annual Return" and substitute therefor the words "Incorporation of the Company."

Balance Sheet* as at 31st December, 19 ..

Capital and Liabilities	£	£	Assets	£
Capital			*Freehold and Leasehold Works (at cost less amount written off leases)*	140,500
Nominal—			*Machinery and Plant (at cost less depreciation)*	39,692
100,000 Ordinary Shares of £1 each	100,000		*Goodwill (at cost)*	10,000
100,000 Preference Shares of £1 each	100,000		*Stock (as valued by Managing Director)*	28,400
	£200,000		*Sundry Debtors (less provision for bad debts)*	3,250
Issued—			*Investments at current market prices*	2,000
100,000 Ordinary Shares of £1 each		100,000	*Cash at Bank*	1,500
50,000 Preference Shares of £1 each		50,000	*Cash in hand*	50
50,000 Preference Shares of £1 each (Issued as part purchase price)		50,000		
Debentures secured by Floating Charge— 200 5 % Bonds of £100 each		20,000		
Sundry Creditors		3,372		
Profit and Loss Account—Balance		1,520		
		£225,392		£225,392

R. D'ORSAY,
N. EMO, } *Directors.*

We have audited the Balance Sheet of Rayon d'Or, Limited, as above set forth. We have received all the information and explanations we have required, and in our opinion such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of our information and the explanations given to us, and as shown by the books of the company.

BLANK & BLANK,
Chartered Accountants } *Auditors.*

I certify that the above Balance Sheet and Auditors' Report are true copies of the last Balance Sheet audited by the company's Auditors (including every document required by law to be annexed thereto) and Auditors' report, respectively.

R. ASH, Secretary.

* A copy of the Director's Report must also be annexed, together with the statement required by S. 126, where applicable (see p. 346). These have not been included above.

Particulars of the Directors * of *RAYON D'OR*, Limited, at the date of the Annual Return.

The present Christian Name or Names and Surname.†	Any former Christian Name or Names or Surname.	Nationality	Nationality of Origin (if other than the present Nationality)	Usual Residential Address.	Other Business Occupation, if any. If none, state so ‡
Waltham, George	—	*British*	—	*1 South Place, London, E.C.*	*Chartered Accountant*
White, Neil	—	*British*	—	*Harlow, Essex.*	*None*
Harris, William	—	*British*	—	*The Rosary, Maidenhead.*	*Director of Soliel D'Or, Limited*

* "Director" includes any person who occupies the position of a Director by whatever name called and any person in accordance with whose directions or instructions the Directors of a Company are accustomed to act.

† In the case of a Corporation its corporate name and registered or principal office should be shown.

‡ In the case of an individual who has no business occupation but holds any other directorship or directorships particulars of that directorship or of some one of those directorships must be entered.

List of Persons holding Shares in *RAYON D'OR*, Limited, on the *7th* day of *February*, 19 ., and of Persons who have held Shares therein at any time since the date of the last Return, or (in the case of the first Return) of the Incorporation of the Company, showing their Names and Addresses, and an Account of the Shares so held.

N B —If the names in this list are not arranged in alphabetical order, an index sufficient to enable the name of any person in the list to be readily found must be annexed to this list.*

Folio in Register Ledger, containing Particulars	Names, Addresses and Occupations.				Account of Stock or Shares							Remarks.
	Surname.	Christian Name.	Address	Occupation	† Number of Shares held by existing Members at date of Return ‡		Particulars of Shares Transferred since the date of the last Return, or (in the case of the first Return) of the incorporation of the Company, by persons who are still Members.			§ Particulars of Shares Transferred since the date of the last Return, or (in the case of the first Return) of the incorporation of the Company, by persons who have ceased to be Members		
							Number ‡		Date of Registration of Transfer	Number ‡	Date of Registration of Transfer.	
					Ord.	Pref	Ord	Pref.		£ s d		
P.S.L *36*	*Bath*	*William*	*492, Moorgate Street, E C*	*Tailor*	*1,000*		*500*		*December 21, 19*			*Transferred to R Jordan*
28	*Verdier*	*Victor*	*51, Rue St Honoré, Paris*	*Chemist*	*500*							
39	*Leoret*	*Howard*	*The Abbey, Rochford, Essex*	*Landowner*	*3,000*							*Executor Robert Drew, The Close, Exeter*
	(Here follow the remainder of the preference shareholders, agreeing in total with the Preference Share Capital subscribed.)											
O.S L *42*	*Robinson*	*George Robert*	*166, Liverpool Street, E C*	*Hosier*		*150*						
16	*Rambler*	*Augustus*	*The Hall, Maldon, Essex*	*Landowner*		*3,650*		*650*	*November 10, 19 .*			*Transferred to B F. Anderson*
24	*Wallflower*	*Angelina*	*962, Conaught Square, W*	*Spinster*		*100*						
	(Here follow the remainder of the ordinary shareholders, agreeing in total with the Ordinary Share Capital subscribed)											

(Signature) *Robert Balduston*
(State whether Director or Manager or Secretary) *Secretary.*

* An index would obviously be necessary in this case.

† The aggregate Number of Shares held, and not the Distinctive Numbers, must be stated, and the Column must be added up throughout so as to make one total to agree with that stated in the Summary to have been taken up.

‡ When the Shares are of different classes these Columns may be subdivided so that the number of each class held, or transferred, may be shown separately Where any Shares have been converted into Stock the amount of Stock held by each member must be shown

§ The date of registration of each Transfer should be given, as well as the Number of Shares Tansferred on each date The particulars should be placed opposite the name of the Transferor and not opposite that of the Transferee, but the name of the Transferee may be inserted in the "Remarks" column, immediately opposite the particulars of each Transfer

Advantages of Private Company.—The private company is frequently met with in practice. It enjoys the privileges and escapes some of the obligations of the public company It is very convenient in the case of family businesses, since it enables a testator whose capital is locked up in the business to divide his estate amongst his legatees without disturbing the financial arrangements of the business, and without imposing upon his heirs the burden of unlimited liability, which they must assume as partners in an ordinary trading concern. Again, the owner of a family business, by converting it into a private company, can enjoy the advantages of a partnership without the attendant risks of unlimited liability. He can share his labours and responsibilities with others, and at the same time, under power of the Articles, can retain plenary control as "governing," or managing, director for life.

One Man Companies.—The capital of private companies is frequently held almost entirely by one man, hence the term "One Man Company." Prior to the passing of the Act of 1908 the position of such companies was somewhat indefinite. In the frequently quoted case of *Salomon* v. *Salomon & Co.*, [1897] App. Cas. 22, the whole of the capital, except six shares held by the other six signatories to the Memorandum, was held by one man, and to him debentures were also issued. In the winding-up proceedings that ensued the liquidator sought to set aside the debentures. But the House of Lords, reversing the decisions of the lower Courts, held that the requirements of the Act (1862) had been complied with. At the time of that decision, private companies were not recognised by law, nowadays, one share held by some other person, the remainder being held by the controller, is sufficient.

There can be no doubt that in the early days these "family" or "one man" companies were regarded with suspicion by the commercial community, and it is feared that the history of some of the earlier registrations justified this prejudice. But so many reputable men have now taken advantage of the undoubted privileges conferred by the Act that the earlier dubious reputation of this class of company has been lived down.

Statutory Requirements for Private Company.—The capital of a private company must be divided into shares. To enable a Private Company to be incorporated, a Memorandum and Articles must be filed, together with a Statement of the Nominal Capital, and a Statutory Declaration of compliance with the requirements of the Act; and within fourteen days from their appointment there must be filed a Return of Particulars as to Directors (S. 144), and within twenty-eight days of incorporation Notice of the Situation of the Registered Office (S. 92).

The following documents must be filed: Return of Allotments and Contracts, Return of any changes in the Particulars as to Directors; Annual Return; Notice of Change of Registered Office; Register of Mortgages and Charges, Statement of Commission; Copies of all Extraordinary or Special Resolutions.

Differences between Private and Public Company.—Two persons suffice to form a private company, and only two signatories are necessary to the Memorandum, in place of the seven required for a public company. Special Articles are essential, as the revised Table A does not contain the restrictions (*a*), (*b*) and (*c*) mentioned above (p. 197). To save expense in printing, private companies (and indeed small public companies) often file Articles which adopt Table A with modifications. Instead of the Articles containing the whole constitution of the company, they contain only those provisions in respect of which Table A is modified.

Restriction (*a*), which must apply to all classes of shares, is sometimes effected by an article stipulating that members desiring to dispose of their shares shall first offer them to the other members of the company at a price fixed either by arbitration or by the company's directors or auditors. Stringent restriction of this kind is not always desirable, since it may render the shares almost unsaleable. In other cases the restriction is effected by an article giving the directors general power to decline to register transfers without assigning any reason, a mode of procedure that is held to be a sufficient compliance with the Act. It is clear that the necessity for restricting the transfer of shares precludes a private company from issuing share warrants to bearer.

Restriction (*b*).—In computing the number of members of a private company, joint holders count as one person, and employees and ex-employees are excluded (S. 26).

Restriction (*c*).—Shares or debentures may be offered to friends of the members, and, so long as they are not available to anyone who cares to apply for them, the restriction is not very rigorously interpreted. Invitations to subscribe may be verbal, or by means of printed matter sent through the post. In the latter case the invitation must not be so open as to make it an invitation to the "public."

Loss of Status as Private Company.—If a private company alters its Articles in such manner that they no longer include the above restrictions, the company ceases, as on the date of the alteration, to be a private company, and must, within fourteen days after that date, register with the Registrar of Companies a prospectus, or a statement in lieu of prospectus in the form produced on pp. 204–6. Where the Articles contain the restrictions, but default is made in complying with any of them, the company ceases to be entitled to the privileges and exemptions conferred on private companies under S. 28; S. 110, s.-s. 3; S. 130, s.-s. 1, and S. 168, s.-s. 4 (see below). The Court, on being satisfied that the failure to comply with the conditions was accidental or due to inadvertence, or to some other sufficient cause, or that on other grounds it is just and equitable to grant relief, may, however, on the application of the company or any other person interested and on such terms and conditions as seem just and expedient, order that the company be relieved from such consequences (S. 27).

The Act provides that the Annual Return to the Registrar

shall be accompanied by a certificate on the part of a director or the secretary of the company that no public offer of shares or debentures has been made, and, when the members exceed fifty, that the excess is composed of employees or ex-employees (S. 111).

FORM OF STATEMENT IN LIEU OF PROSPECTUS TO BE DELIVERED TO REGISTRAR BY A PRIVATE COMPANY ON BECOMING A PUBLIC COMPANY.

THE COMPANIES ACT, 1929.

Statement in lieu of Prospectus delivered for registration by

[Insert the name of the Company.]

Pursuant to Section 27 of the Companies Act, 1929. Delivered for registration by

The nominal share capital of the Company.	£
Divided into	Shares of £ each. " £ " " £ "
Amount (if any) of above capital which consists of redeemable preference shares.	Shares of £ each.
The date on or before which these shares are, or are liable, to be redeemed.	
Names, descriptions and addresses of directors or proposed directors.	
Amount of shares issued	Shares
Amount of commissions paid in connection therewith.	
Amount of discount, if any, allowed on the issue of any shares, or so much thereof as has not been written off at the date of the statement.	
Unless more than one year has elapsed since the date on which the Company was entitled to commence business:—	
Amount of preliminary expenses.	£
Amount paid to any promoter	Name of promoter. Amount £
Consideration for the payment	Consideration:—
If the share capital of the Company is divided into different classes of shares, the right of voting at meetings of the Company conferred by, and the rights in respect of capital and dividends attached to, the several classes of shares respectively.	
Number and amount of shares and debentures issued within the two	1. shares of £ fully paid.

years preceding the date of this statement as fully or partly paid up otherwise than for cash or agreed to be so issued at the date of this statement.	2. shares upon which £ per share credited as paid.
Consideration for the issue of those shares or debentures.	3. debenture £ 4. Consideration:—
Names and addresses of Vendors of Property (1) purchased or acquired by the Company within the two years preceding the date of this statement or (2) agreed or proposed to be purchased or acquired by the Company.	
Amount (in cash, shares or debentures) paid or payable to each separate vendor.	
Amount paid or payable in cash, shares or debentures for any such property, specifying the amount paid or payable for goodwill.	Total purchase price £ Cash .. .. £ Shares .. .. .. £ Debentures .. .. £ Goodwill .. .. .. £
Dates of, and parties to, every material contract (other than contracts entered into in the ordinary course of business or entered into more than two years before the delivery of this statement).	
Time and place at which the contracts or copies thereof may be inspected.	
Names and addresses of the auditors of the Company.	
Full particulars of the nature and extent of the interest of every director in any property purchased or acquired by the Company within the two years preceding the date of this statement or proposed to be purchased or acquired by the Company or, where the interest of such a director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him or to the firm in cash or shares, or otherwise, by any person either to induce him to become or to qualify him as a director, or otherwise for services rendered or to be rendered to the Company by him or by the firm.	
Rates of the dividends (if any) paid by the Company in respect of each class of shares in the Company	

in each of the three financial years immediately preceding the date of this statement or since the incorporation of the Company whichever period is the shorter.

Particulars of the cases in which no dividends have been paid in respect of any class of shares in any of those years.

If any of the unissued shares or debentures are to be applied in the purchase of any business, the amount, as certified by the persons by whom the accounts of the business have been audited, of the net profits of the business in respect of each of the three financial years immediately preceding the date of this statement, provided that in the case of a business which has been carried on for less than three years and the accounts of which have only been made up in respect of two years or one year, the above requirement shall have effect as if references to two years or one year, as the case may be, were substituted for references to three years, and in any such case the statement shall say how long the business to be acquired has been carried on.

(Signatures of the persons above-named as directors or proposed directors or of their agents authorised in writing.)

Date......................

NOTE.—In this Form the expression "vendor" includes a vendor as defined in Part III of the Fourth Schedule to this Act, and the expression "financial year" has the meaning assigned to it in that Part of the said Schedule.

Exemptions of a Private Company.—A private company is exempt from the necessity to file a Prospectus, or Statement in Lieu of a Prospectus (S. 40), or a copy of its Balance Sheet and annexed documents, which other companies must file [S. 110, s.-s. (3)]. It need not file any "Consent to Act" on behalf of its directors (S. 140). It may begin to trade immediately it is incorporated, since no certificate entitling it to commence business is required (S. 94). It is under no necessity to circulate or file any Statutory Report, or hold the statutory meeting (S. 113). Unless the Articles

of Association confer the right, neither members nor the holders of debentures and preference shares in private companies are entitled to receive Balance Sheets and Reports, but members may demand copies on payment (S. 130, see pp. 347–8). It is not subject to the restriction that every company registered after October 31, 1929, must have at least two directors (S. 139). It can carry on business so long as the number of members is not less than two, as compared with seven in the case of a public company (S. 28).

If the members of a private company are reduced below two, the company may be wound up by the Court [S. 168, s.-s. (4)]. If it carries on business with less than two members for more than six months, the member so carrying on after those six months is liable for the payment of the whole debts of the company contracted during that time.

A private company may be converted into a public company by the simple expedient of altering its Articles to exclude the restrictions which constitute it a private company. It must then file the appropriate statement in lieu of prospectus (see above).

Company Meetings.

Distinctive names are given to the various meetings which, from time to time, may or must be held by a limited company in the course of its business.

Statutory Meeting.—The first meeting is usually the Statutory Meeting, provided for by S. 113. Every company limited by shares, and every company limited by guarantee and having a share capital, must hold this meeting, unless it is a private company, not less than one month, or more than three months, from the date when the company was authorised to commence business. The procedure followed at this meeting is fully described in the next chapter, where the details required in the Statutory Report are also discussed. The regulations as to statutory meetings are dealt with at p. 244.

Annual General Meeting.—By S. 112 every company must hold at least one general meeting in every calendar year. This meeting is called the Annual General Meeting, and it must be held, under penalty, on a date not more than fifteen months after the preceding general meeting. A company may hold more than one general meeting within the year if it is considered to be necessary.

Procedure—The secretary reads the notice convening the meeting, and the Report of the Auditors (S. 129). Although it is usual, there does not appear to be any legal obligation to read the notice convening the meeting, but the auditor's report *must* be read. The Directors' Report and the Accounts are usually "taken as read." After any necessary comments and explanations have been made relative to the trading results of the past year and the financial position of the company, the chairman proposes the adoption of the Report and the Accounts, copies of which have been sent to the members seven days prior to the meeting. This proposal is formally seconded by one of the directors, and the

meeting is then free to discuss the Report and Accounts, and to ask any questions arising out of them. At the close of the discussion the resolution is put to the meeting, and usually passed. The dividend, if one is available, is then declared, the retiring directors and auditors are reappointed (or the vacancies otherwise filled), and the remuneration of the latter is fixed. The adoption of the Report and the declaration of the dividend are usually moved and seconded by directors, but the appointment of the auditors is proposed and seconded by members who are not on the Board. All resolutions are decided by a show of hands, unless a poll is demanded.

Amendments may be moved by members who do not approve of the resolution submitted. When an amendment has been moved and seconded, it is put to the meeting by the chairman before the resolution is submitted, and, if it is carried, it is then put to the meeting as part of the substantive resolution. If two amendments are before the meeting and the first is carried, the second becomes an amendment to the substantive resolution as already amended.

These meetings are called *Ordinary Meetings*, and the business transacted at them is called *Ordinary Business*. No special notice need be given of ordinary business, though it is customary to set out the *Agenda* in the notices calling such meetings. It is usual to specify in the Articles the business which is to be considered "ordinary" business; all business not included in the specification being "special" business. The notice convening the meeting must contain details of any special business it is proposed to transact, otherwise the business cannot validly be transacted.

Only members, or their duly appointed proxies, are entitled to be present at meetings. It is usual to require members to sign the attendance sheets provided at the entrance to the meeting room, a separate sheet being reserved for representatives of the Press. In some cases tickets are issued to members, without which admission to the meeting is denied. In the case of large companies the issue of such tickets economises time and prevents congestion at the doors. Holders of share warrants to bearer, whose names are necessarily unknown to the company, usually attend meetings on production of tickets issued by the company upon the lodgment of the warrants.

Members may reject the Report and Accounts, but to do so would amount to the passing of a vote of censure, and would generally be followed by the resignation of the Board, or by the appointment of a Committee of Investigation. Members may also reduce the amount of the proposed dividend, or pass it altogether, if they so desire, but under Table A and the majority of Articles they have no power to increase the dividend proposed by the directors. The directors usually have power to pay interim dividends.

To constitute a valid meeting it is, of course, necessary that a quorum of shareholders as fixed by the Articles should be present.

The auditors may attend any general meeting at which any accounts which have been examined or reported on by them are to be laid before the company, and make any statement or explanation they desire with respect to the accounts [S. 134, s.-s. (3).]

Extraordinary General Meetings.—Meetings other than those mentioned above are termed *Extraordinary General Meetings*, and these, subject to the provisions of the Articles, may be called whenever they are deemed desirable by the directors. Shareholders holding not less than one-tenth of such of the paid-up capital as carries the right of voting may, under S. 114, require the directors to call an Extraordinary General Meeting. As a general rule, the Articles provide that all business transacted at extraordinary meetings is to be deemed "special" business, and that particulars of the business must be given in the notices convening these meetings. No business other than the special business of which notice has been given can be transacted at an Extraordinary General Meeting

Notice of Meetings.—In almost every case the Articles provide that "seven clear days'" notice must be given of all meetings. In order to ensure this, the day the notice is sent out and the day of the meeting should be excluded.

Adjournments.—Adjourned meetings are generally treated as continuations of the original meetings, and Articles of Association usually prohibit the transaction of any business at an adjourned meeting other than that left incomplete at the original meeting. Apart from any special regulations contained in the Articles, there is no obligation to give notice of an adjourned meeting. But any resolution passed at an adjourned meeting is to be treated as having been passed on the date on which it was in fact passed, and not at any earlier date (S. 119).

Meetings of Directors.—Directors' meetings are determined by themselves. As a rule, one director may request the secretary to convene a meeting. Usually the chairman has a casting vote. Directors may appoint committees of their own number, and fill up vacancies Every director present at a meeting should initial or sign the *Attendance Book*. The agenda should be written up in an *Agenda Book*, and the chairman should note briefly against each item of business the decision come to. All minutes should be numbered and indexed in the Minute Book, in order to facilitate references to decisions dealing with the same subject-matter.

Company Resolutions.—It need hardly be stated that, to be valid, resolutions must not be *ultra vires* of the company, contrary to public policy, illegal, or in contravention of the Companies Act or the Articles of the company. The Act specifies that in certain events resolutions are necessary. They are of three kinds. (*a*) Ordinary; (*b*) Extraordinary; (*c*) Special resolutions.

(*a*) *Ordinary Resolutions.*—An ordinary resolution is the most common, and is one that may be carried by a bare majority in number of those present and voting at the meeting. A show of hands is all that is necessary. Subject to any special provision in the Articles, no notice of the text of the resolution need be

given to the members, unless the business is special, e.g. alterations of capital, in which case the text of the resolution must be contained in the notice. Ordinary resolutions are employed for the transaction of ordinary routine business, such as the adoption of the Report and Accounts, the declaration of a dividend, the re-election of directors and auditors, and so forth.

(b) *Extraordinary Resolutions.*—This kind of resolution must be passed by a majority of not less than three-fourths of such members as, being entitled so to do, vote in person or, where proxies are allowed, by proxy, at a general meeting of which notice specifying the intention to propose the resolution as an extraordinary resolution has been duly given [S 117, s.-s. (1)]. Probably the most common occasion for the employment of an extraordinary resolution is the winding-up of a company voluntarily, owing to its inability to meet its liabilities. The Articles of some companies provide that resolutions of this class are necessary in specified cases.

(c) *Special Resolutions.*—A special resolution must be passed in the same manner as is required for an extraordinary resolution, and at a general meeting of which not less than twenty-one days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given [S. 117, s-s. (2)]. As in the case of an extraordinary resolution, the exact text of the proposed resolution must be contained in the notice convening the meeting. If *all* the members entitled to attend and vote at any such meeting so agree, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one days' notice has been given (S. 117).

Copies of all extraordinary and special resolutions must be printed and filed with the Registrar within fifteen days of the date when they were passed (S. 118). Copies of the resolutions must also be incorporated in all copies of the Articles of Association subsequently issued (*ibid.*).

The view is sometimes advanced that resolutions submitted at an extraordinary meeting must be accepted or rejected as they stand. This view is undoubtedly wrong. When the resolution is under consideration it can be varied by any proper amendment duly passed, and if a proper amendment is rejected the resolution is liable to be set aside (*Henderson* v. *Bank of Australasia* (1890), 45 Ch. D. 330; *Torbock* v. *Lord Westbury*, [1902] 2 Ch. 871). The amendment, however, must be one which is within the scope of the original notice.

Some of the matters for which the sanction of a special resolution is essential are: reduction of capital (subject to the sanction of the Court), alteration of the name or objects of a company; alteration of the Articles of Association; winding-up of a company by the Court, or voluntarily, under certain circumstances, creation of Reserve Liability; etc.

Minute Books.—The Act directs that a record must be kept of the proceedings at general meetings and meetings of the directors or managers of a company (S. 120). When the record is signed

by the chairman of the meeting, or by the chairman of the succeeding meeting, such minutes shall be evidence of the proceedings. It would appear that, in the absence of contrary provisions in the Articles, no resolution of directors is valid unless it is actually passed at a Board meeting (*Portuguese Consolidated Copper Mines* (1889), 42 Ch. D. 160), but a resolution in writing signed by the directors may be valid if the Articles so provide, and such an Article is often convenient in small companies.

The minutes of general meetings are open to the inspection of members (S. 121), and should therefore be kept in a separate book, as it is usually undesirable that the Directors' minutes should be so inspected.

In a joint opinion of eminent counsel obtained by the Institute of Chartered Accountants it was considered that the words " books of the company," to which, under S. 134, auditors have access, include the Minute Books and Letter Books.

DIRECTORS.

It is appropriate at this point to mention the important requirements of the Act respecting directors. Every public company registered after October 31, 1929, must have at least two directors (S. 139).

A person cannot be appointed a director of a public company by the Articles, or be named as a director or proposed director in a prospectus or statement in lieu of prospectus, unless before the registration of the Articles or the publication of the prospectus, or the delivery of the statement in lieu of prospectus, he has personally or by his agent authorised in writing—

(*a*) signed and filed a consent in writing to act as such director, and—

(*b*) either

(i) signed the memorandum for a number of shares not less than his qualification (if any); or

(ii) taken from the company and paid or agreed to pay for his qualification shares (if any); or

(iii) signed and filed an undertaking in writing to take from the company and pay for his qualification shares (if any), or

(iv) made and filed a statutory declaration to the effect that a number of shares not less than his qualification (if any) are registered in his name.

A person who has filed the undertaking in (*b*) (iii) above is in the same position as a signatory to the memorandum (S. 140).

A person who is an undischarged bankrupt cannot act as a director without the leave of the Court, unless the bankruptcy occurred before August 3, 1928, and he has continuously been a director of the company since before that date. Default is punishable by imprisonment (S. 142).

Every company registered after November 22, 1916, every foreign company establishing a place of business in Great Britain

after that date, and every company licensed under the *Moneylenders' Act*, 1927, must show on its trade catalogues, circulars, showcards, and business letters the names, and nationality (if not British), and nationality of origin (if not the present nationality) of every director (S. 145).

Members entitled to not less than one-fourth of the aggregate votes to which all members of the company are entitled, may make a written demand to the directors requiring the latter to furnish to all members within one month a statement, certified by the auditors of the company, showing as respects each of the last preceding years in respect of which accounts of the company have been made up the aggregate amount received in that year by way of remuneration or other emoluments by directors of the company, including fees received by such directors as directors of subsidiary companies, or as nominees of the company on the board of any other company. The company in general meeting may resolve within the month that the statement shall not be furnished. It is sufficient to state the total aggregate of all sums paid to all the directors, without specifying the emoluments of any individual. The emoluments must be gross, i.e. including any income tax, etc., paid by the company on any director's behalf, and any commissions, allowances, or other perquisites (S. 148).

It is the duty of every director who is in any way, directly or indirectly, interested in a contract or proposed contract with the company to declare his interest at a meeting of the directors of the company. A general notice that he is a member of a specified company or firm and is to be regarded as interested in any contract made thereafter with that company or firm is sufficient (S. 149). It is therefore advisable for directors to review their investments from time to time, and notify the Boards of any companies likely to be within this section.

Where the whole or part of the undertaking or property of the company is being transferred, it is unlawful for any director to receive any payment for loss of office or in connection with his retirement unless the details have been disclosed to and approved by the members. An enhanced price for his shares is sufficient to bring a director within these provisions (S. 150)

A director cannot assign his office except with the approval of a special resolution (S. 151).

Audit.

Appointment of Auditors.—Since 1900, the appointment of an auditor, or auditors, at each annual general meeting, to hold office until the next annual general meeting, has been compulsory upon every limited company, both public and private [S 132, s.-s. (1)]. The following persons are not qualified for appointment as auditor: (*a*) a director or officer of the company; (*b*) except where the company is a private company, a person who is a partner of or in the employment of an officer of the company; (*c*) a body corporate (S. 133). It is obvious that no director of the company, or official

subject to the authority of the directors, would afford the members the independent audit required by the statute. Nor would a body corporate bring to bear the personal skill or discharge the onus which is laid upon an auditor to the same extent as would an individual person.

If the desire exists to appoint an auditor other than the retiring auditor, at least fourteen days' notice of the intention to nominate a new auditor must be given to the company by a member, and a copy of the notice must be sent to the retiring auditor. Not less than seven days' notice must also be given to the members prior to the annual meeting [S. 132, s.-s. (3)]. The method by which the notice is to be sent to the members depends upon the Articles of Association, but it is usual to incorporate it in the notice calling the annual meeting which accompanies the Accounts and Report

If the members fail to appoint an auditor at the annual meeting, the Board of Trade may, upon the application of any member, appoint an auditor for the current year and fix his remuneration [S. 132, s.-s. (2)]. The first auditors may be, and usually are, appointed by the directors prior to the first annual general meeting. When so appointed, they remain in office until the first annual meeting. The members can, of course, remove them at this meeting if they so desire, or at an earlier meeting, provided notice has been given to the auditors in the same manner as to members [S. 132, s.-s. (4)]. The directors may also fill any casual vacancy which occurs in the office [S. 132, s.-s. (5)].

The proposal for the re-election of the auditor should come from the general body of members and not from the directors The audit fee must be fixed by the persons appointing them [S 132, s.-s. (6)]. It nearly always forms part of the resolution reappointing the auditors.

Rights and Duties of Auditors.—The auditor is the representative of the members, he has been judicially described as their "watch-dog," and is appointed to audit the accounts of the directors. His obligation is to carry out his duties as defined by statute (S. 134) He is quite independent of the directors, and acts not for them but for the members. His attitude is not, of course, hostile to the directors, unless for grave reason, and then it is his duty to report to the members. Sometimes joint auditors are appointed to safeguard the rights of the debenture holders or different classes of members.

The auditors must make a report to the members on the accounts examined by them, and on every balance sheet submitted to the company in general meeting during their tenure of office. This report must state whether, in their opinion, the balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs, according to the best of their information and the explanations given to them, and as shown by the books of the company [S. 134, s.-s. (1) (b)]

The wording of the audit reports appended to the accounts of limited companies by auditors follows very much upon the lines suggested in a joint opinion obtained from eminent counsel by the

Institute of Chartered Accountants. In normal circumstances it usually takes some such form as the following:—

To the Shareholders of the Blank Company, Limited

We report to the Shareholders as follows. We have audited the above Balance Sheet dated .... We have obtained all the information and explanations we have required. In our opinion such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given us and as shown by the books of the Company.

If the auditors are of opinion that any particular matter ought to be brought to the attention of the shareholders, e.g. the valuation of the Investments, it is usual to qualify the report by the insertion of such some qualification as:—

Subject to the value placed by the Directors upon the Investments, in our opinion, such Balance Sheet, etc.

If the auditor's report is too lengthy to print on the balance sheet, it must be attached to the balance sheet. A reference to it on the face of the balance sheet is *not* sufficient. The report must be read at the annual general meeting, and must be open to the inspection of the members [S 129, s -s. (1)].

S. 134, s.-s. (2) gives the auditors of the company access at all times to the books, accounts and vouchers of the company, and confers on them the right to examine the directors or officials thereon As has been stated above, the word "books" is held to include minute and letter books. The term "voucher" is interpreted in its widest sense as including all documentary evidence which the auditor may call for in order to perform his duties. If the auditor is denied the information or evidence required by him, he must report to the shareholders that his requirements have not been complied with.

It has been indicated elsewhere that the auditor is not responsible for the particular form in which the accounts of the company are presented, provided it complies with the Act and is not misleading, nor can he dictate to the directors the system of book-keeping they should adopt Reference should be made to pp. 346 *et. sqq.*, on which are explained the statutory requirements regarding the accounts—S. 128, s.-s. (4) being particularly important.

Responsibilities of Auditors.—The interesting question as to how far an auditor is the "agent of the members" or an "officer of the company" and therefore liable for misfeasance under S. 276 appertains more particularly to the student of auditing, Auditors will be wise to study carefully the cases of *Spackman* v. *Evans* (1868), 3 H.L. 171; *London and General Bank*, [1895] 2 Ch. 166; and *Kingston Cotton Mill Co., Ltd.*, [1896] 1 Ch 6.

After the failure of the "Liberator group" of companies, considerable attention was given to the position of auditors, and *In re the London and General Bank*, [1895] 2 Ch. 673, Lord Lindley gave a judgment which is often quoted, and has become the *locus classicus* in the discussion of the auditor's rights and duties:—

"It is no part of an auditor's duty to give advice, either to directors or shareholders, as to what they ought to do. An auditor has nothing to do with the prudence or imprudence of making loans with or without security. It is nothing to him whether the business of a company is conducted prudently or imprudently, profitably or unprofitably. It is nothing to him whether dividends are properly or improperly declared, provided he discharges his own duty to the shareholders. His business is to ascertain and state the true financial position of the company at the time of the audit, and his duty is confined to that. But then comes the question: How is he to ascertain that position? The answer is, by examining the books of the company. But he does not discharge his duty by doing this without inquiry and without taking any trouble to see that the books themselves show the company's true position. He must take reasonable care to ascertain that they do so Unless he does this his audit will be worse than an idle farce. Assuming the books to be so kept as to show the true position of the company, the auditor has to frame a balance sheet showing that position according to the books, and to certify that the balance sheet presented is correct in that sense. . . . An auditor, however, is not bound to do more than exercise reasonable care and skill in making inquiries and investigations. He is not an insurer. . . . What is reasonable care in any particular case must depend upon the circumstances of that case. Where there is nothing to excite suspicion, very little inquiry will be reasonably sufficient, and in practice I believe business men select a few cases at haphazard, see that they are right, and assume that others like them are correct also. Where suspicion is aroused more care is obviously necessary."

Lord Justice Lopes, *In re Kingston Cotton Mill Company* (No. 2), [1896] 2 Ch. 288, said:

"It is the duty of an auditor to bring to bear on the work he has to perform that skill, care and caution which a reasonably competent, careful and cautious auditor would use. What is reasonable skill, care and caution must depend on the particular circumstances of each case. An auditor is not bound to be a detective, or, as was said, to approach the work with suspicion, or with a foregone conclusion that there is something wrong He is a watch-dog, not a bloodhound. He is justified in believing tried servants of the company in whom confidence is placed by the company. He is entitled to assume that they are honest, and to rely upon their representations, provided he takes reasonable care. If there is anything calculated to excite suspicion, he should probe it to the bottom; but in the absence of anything of that kind he is only bound to be reasonably cautious and careful. . . . It is not the duty of an auditor to take stock; he is not a stock expert; there are many matters in which he must rely on the honesty and accuracy of others. He does not guarantee the discovery of all fraud."

Where, consequent on a breach of the duties thus defined, a dividend has been paid, and reliance upon the audit report found misleading, the auditor has been held liable to repay the dividend thus improperly declared. For he has been held to be an "officer" of the company, and liable, like its directors, to proceedings for misfeasance. In (*In re London and General Bank* (No. 2), [1895] 2 Ch. 673) an auditor considered some of the items in the balance sheet unsatisfactory, and called the attention of the directors to the fact, and urged that no dividend should be paid, but was subsequently induced by the directors to omit any direct qualification in his report at the foot of the balance sheet, and a dividend was declared. As a result, both the auditor and the directors were held jointly and severally liable to repay the amount of the dividend The Court considered that such a vague phrase as "the value of the assets as shown is dependent upon realisation" was not sufficient. The warning to the members must be explicit.

In a more recent case it was pointed out that the auditors of a company are bound to make themselves acquainted with their duties under the Companies Act and under the Articles of the company, and if the Balance Sheet which they have audited does not show the true financial condition of the company, the onus is upon the auditors to prove that any ensuing damage is not the result of a breach of duty on their part. It would appear that the *adequacy* of the warning is the crucial point, and in order to free himself from liability the auditor must clearly indicate to the members the items to which he takes exception. In the case in question the company had no power to pay commission on placing its shares. The accounts showed that sums had been paid as commission for so doing The company, after discussion, approved the Balance Sheet, and it was held that the auditors had not failed in their duty (*In re Republic of Bolivia Exploration Syndicate* (No. 2), [1914] 1 Ch. 139).

The extent of the reliance which an auditor may place upon the officers of the company is a question which arises from time to time. An auditor had been appointed to investigate the condition of a business. He relied on information given him as to the stock by servants of the company. This proved to be incorrect, and loss ensued. In an action brought against the auditors the Court cited Lopes, L.J., on the point, and added:—

> "The auditor is to make a proper and reasonable investigation of the accounts and stock sheets. If as a reasonably prudent man he ought to conclude on that investigation that something is wrong, it is his duty to call attention to the fact. It is not the duty of an accountant, in auditing the accounts of a company, to take stock, though he may well call for explanations of particular items in the stock sheets. But he is entitled to rely on the documents vouched by servants of the business, unless he has reason for believing those servants to be dishonest" (*Squire Cash Chemist, Ltd.*, v. *Ball, Baker & Co.*, [1911] 106 L.T. 197; 28 T.L.R. 81).

INSPECTION.

On the application of members holding not less than one-tenth of the shares issued (Banking companies one-third), the Board of Trade may appoint Inspectors to investigate and report on the affairs of a company. Good reasons must be advanced, and the Board may require the applicants to give security not exceeding £100 for the payment of the costs.

The officers and agents of the company must produce all books and documents in their custody or power to the Inspectors, who may examine such persons on oath.

The report of the Inspectors is made to the Board of Trade, who must forward a copy to the company and, on request, to the applicants for the investigation (S. 135).

If the report makes it appear to the Board of Trade that any person is guilty of a criminal offence in relation to the company, the Board may refer the matter to the Director of Public Prosecutions, who may institute the necessary proceedings. The expenses of prosecution must be defrayed by the Board of Trade, but all other costs of the investigation may be directed to be paid by the company and/or the applicants (S. 136)

The company itself may by special resolution appoint Inspectors who have the same powers as Inspectors appointed by the Board of Trade, except that they report to the persons named by the general meeting (S. 137).

SUMMARY OF STATISTICAL BOOKS AND DOCUMENTS.

It may be well to conclude this chapter with a summary of the statistical books commonly found in the office of a public limited company, and with a list of the various returns which must be filed at one time or another during the ordinary course of a company's business.

Summary of Statistical Books.

(a) *Statutory Books.**

(1) Minute Books (S. 120), comprising Directors' Minute Book and General and Extraordinary Meetings Minute Book.
(2) Copies of the Annual Return contained in a separate part of the Register of Members [S. 110, s.-s. (1)].
(3) Register of Members and Index thereto (if necessary) (SS. 95–96).
(4) Register of Charges (S. 88).
(5) Register of Directors or Managers (S. 144).

(b) *Non-Statutory Books.*

(6) Debenture Holders Ledger.
(7) Agenda Book.
(8) Directors' Attendance Book.

* Proper books of account are also statutory books, but are not included in the list, which deals only with statistical books.

(9) Register of Allotment Sheets.
(10) Register of Allotment Returns.
(11) Transfer Register.
(12) Register of Share Certificates.
(13) Register of Certifications and Balance Tickets.
(14) Dividend Book.
(15) Transfer Fee Cash Book.
(16) Call Book.
(17) Debenture Interest Book.
(18) Register of Probates.
(19) Shareholders' Address Book.
(20) Register of Powers of Attorney.

In the event of liquidation, the books and papers of the company are finally disposed of as may be directed by the Court in the case of compulsory liquidation or liquidation under supervision; in the case of a members' voluntary liquidation as the company, by extraordinary resolution, may direct; and in the case of a creditors' voluntary winding up as the committee of inspection, or if there is no such committee, as the creditors may direct (S. 283).

Summary of Documents to be Filed.

The following documents, where applicable, must be filed with the Registrar:—

(1) Memorandum of Association (S. 12).
(2) Articles of Association (S. 12).
(3) Declarations as to Compliance with Regulations (S. 15, s.-s. 2, and S. 94, s.-s. (1) (*c*) and s.-s. (2) (*c*)).
(4) Consent to take the name of an existing company (S 17).
(5) List of Directors (S. 140).
(6) Consent to act as a Director (S. 140).
(7) Statement of Nominal Capital.
(8) Undertaking by Directors to take and pay for their Qualification Shares (S. 140).
(9) Declaration by Directors that Qualification Shares have been registered in their names (S. 140).
(10) Prospectus (S. 34) or Statement in Lieu of Prospectus (S. 40).
(11) Statement of the Amount or rate per cent. of Commission in respect to shares (S 43).
(12) Statutory Report (S. 113).
(13) Annual Return of Capital, Members, and Directors (S. 110).
(14) Consolidation, Division, Subdivision, or Conversion of Shares into Stock, or of Reconversion of Stock into Shares, or of Redemption of Redeemable Preference Shares or of Cancellation of Shares (S. 51).
(15) Returns as to Increase of Capital (S. 52) or of Members [S. 7, s.-s. (3)].
(16) Reduction of Capital (SS. 55, 58, 118).

(17) Notices of situation of, or change of, Registered Office (S. 92).
(18) Copies of any Extraordinary or Special Resolutions (S. 118).
(19) Particulars as to Directors or Managers (S. 144).
(20) Returns of Allotments (S. 42).
(21) Particulars of Contracts in respect of shares issued otherwise than for cash (S. 42).
(22) Particulars of Debentures, Mortgages, and Charges (SS. 79, 80, 81, 86, 91).
(23) Memorandum of satisfaction (S. 84).

EXAMINATION QUESTIONS.

1. Explain the terms: (*a*) Company; (*b*) Unlimited Company; (*c*) Limited Company. (*Royal Society Arts.*)

2. What exactly do you understand by the expressions "a company limited by shares" and "a company limited by guarantee"? How will the contents of the Memorandum of Association of a Company differ according to whether it is (*a*) Limited by shares; (*b*) Limited by guarantee and having a share capital; or (*c*) Limited by guarantee and not having a share capital? (*Chartered Accountants*)

3. Define the several kinds of companies which may be incorporated under the Companies Act, 1929. For what purposes, to what extent, and how may a company change (*a*) its name, (*b*) its objects, (*c*) its Articles of Association? (*Incorporated Accountants.*)

4. What special provisions are made by statue with respect to the registration with limited liability of Associations not formed for profit without the addition of the word "Limited" to their names? (*Chartered Accountants.*)

5. What restrictions must appear in the Articles of Association of a Private Company? What is the effect of failure to comply with them?

6. Specify the particulars that a prospectus issued by or on behalf of a company must disclose. (*Incorporated Accountants.*)

7. What are the matters which must be stated in the prospectus? If a prospectus contains false statements, how far is a director liable to indemnify a person injured by them? (*Royal Society Arts.*)

8. The prospectus of a company contained certain statements that were false. Can X, a shareholder in the company, set aside his share contract, and, if so, what must he prove? (*Central Association Accountants*)

9. Relying on certain statements in the prospectus issued by a limited company, A applied for, and was allotted, 100 £1 shares He has recently discovered that these statements were wholly untrue, and has commenced an action against X and Y, who are directors of the company, to recover damages in respect thereof. What must A prove in order to succeed? What defences are open to X and Y? In the event of A recovering damages against X and Y, are X and Y entitled to contribution to any and what extent from the other directors? (*Incorporated Accountants.*)

10. What various particulars must the prospectus of a company contain with respect to its directors, and their interests and obligations? (*Chartered Accountants.*)

11. What is the general liability of directors for statements made in a prospectus; and in what cases can they relieve themselves of such liability? (*Incorporated Accountants.*)

12. How does the law now stand as regards the disclosure of contracts in a prospectus? (*Chartered Accountants.*)

13. To what extent is a director of a limited company liable in damages for mis-statements contained in the prospectus of the company? How far,

if at all, is a director against whom damages have been recovered for such mis-statement, entitled to contribution from the other directors? (*Incorporated Accountants.*)

14. What particulars must the prospectus of a company now contain with respect to:—(*a*) Shares and debentures previously issued; (*b*) Names of vendors; (*c*) Material contracts? Who is included under the term "vendor" for this purpose? (*Incorporated Accountants.*)

15. Distinguish between Underwriting Commission and Commission on placing Shares, and define your duties as auditor with regard to each. (*Incorporated Accountants.*)

16. In what circumstances, and subject to what conditions, may commissions for underwriting be paid? (*Chartered Institute Secretaries.*)

17. What conditions must be satisfied before a company can pay a commission to persons underwriting an issue of its shares? Can a company in any circumstances issue shares at a discount? (*Chartered Accountants.*)

18. What is an Underwriting Agreement, and in what conditions is such an agreement permissible? (*Royal Society Arts.*)

19. The O.L.M. Co., Ltd., was formed with a capital of £100,000 in £1 shares, the whole amount being issued to the public. The underwriting was as follows: A, 35,000; B, 20,000; C, 30,000; D, 10,000; E, 2,000; F, 3,000.

All marked forms were to go in relief of the underwriters whose name they bear.

The applications on forms marked by the underwriters were: A, 10,000; B, 20,000; C, 22,500; D, 7,500; E, nil; F, 5,000.

Applications for 20,000 shares were received on forms not "marked."

Draw up a statement showing the number of shares each underwriter had to take up. (*Chartered Accountants.*)

20. Define carefully the legal position of a person who is the promoter of a company in relation to the company. Is a promoter entitled under any, and if so, what circumstances to sell his own property to a company promoted for the purpose of buying it? Is a promoter liable to account for profits made by him in the promotion of a company? (*Incorporated Accountants.*)

21. What conditions must be satisfied before a person is capable of being appointed a director of a company (not being a "Private Company") by its Articles of Association? (*Chartered Accountants.*)

22. The first directors of a company are usually named in the Articles: what must be done by the directors before such an appointment is valid? (*Central Association Accountants.*)

23. What are the contents and functions of the Memorandum of Association of a company? (*Chartered Accountants.*)

24. What is the difference between the Memorandum and the Articles of Association of a company, and what in particular must be stated in the Memorandum? To what class of companies, and to what extent, do the regulations of Table A apply? (*Incorporated Accountants.*)

25. Define the Memorandum. How far may it be altered or extended? (*Royal Society Arts.*)

26. Consider the effect of separate clauses in the Memorandum of Association of a company giving the company powers independent of the main object of the company. (*Central Association Accountants.*)

27. How, and to what extent, may the objects clause in the Memorandum be altered? (*Chartered Institute Secretaries.*)

28. What is the effect of the word "limited" in the name of a company, and when may it be dispensed with? What is meant by "reserve liability," and in what cases is the liability of the directors unlimited? When may a director or officer be held to be personally liable for acts purporting to be done by him on behalf of the company? (*Incorporated Accountants.*)

29. The Heliograph Co., Ltd., is offering for public subscription 10,000 shares of £1 each, 2s 6d. per share to be paid on application, and 2s. 6d. on allotment. The minimum subscription is 500 shares, and the director's qualification is 300 shares. How does the Companies Act, 1929, insure that these conditions shall be complied with by the company? What penalties are imposed in case of breach? (*Central Association Accountants.*)

30. When may a company reduce its capital: (*a*) Without leave of the Court; (*b*) With leave of the Court?

What steps must be taken for reducing capital when the sanction of the Court is necessary? (*Incorporated Accountants.*)

31. What are the limits to the right of directors (*a*) to make calls; (*b*) to allow shareholders to make payments on their shares before any call is made? (*Royal Society Arts.*)

32. What is a call? Under what circumstances, if any, may the directors of a company allow shareholders to pay up the amount due on their shares before any call has been made? X and Y are shareholders in the Blank Company, Ltd. X has transferred his shares to Z. Y's shares have been forfeited by the directors. Discuss the liability (*a*) of X for future calls; (*b*) of Y for past calls. (*Incorporated Accountants.*)

33. The Articles of Association of a company permit the directors to receive from shareholders payment in advance of their calls, allowing them interest on such advances. Is such interest necessarily dependent upon profits, and how should interest due and paid under such an arrangement be treated in the Profit and Loss Account? (*Chartered Accountants.*)

34. State shortly the effect of the ordinary provisions of Articles of Association as to forfeiture of shares. (*Chartered Institute Secretaries.*)

35. What provision is usually made by the company's Articles of Association as to forfeiting shares on failure to pay calls? How can the company deal with shares so forfeited? Can they be resold, and, if so, do the ordinary restrictions as regards issuing shares at a discount apply? (*Central Association Accountants*)

36. The directors of a limited company forfeited 1,000 Ordinary Shares of £1 each owing to non-payment of the final call of 10s. per share. The shares were subsequently reissued to another shareholder for a cash payment of 22s. 6d. per share.

(1) Are these proceedings *intra vires*?
(2) What steps should you take to enable you to arrive at a decision?
(3) How should the transactions be dealt with in the Balance Sheet which you are asked to certify? (*Chartered Accountants.*)

37. Explain the following classes of shares —(1) Ordinary; (2) Cumulative Preference, (3) Deferred Ordinary; (4) Management; (5) Founders'. (*Chartered Institute Secretaries.*)

38. Define the following: (*a*) Ordinary Shares; (*b*) Ordinary Stock; (*c*) Cumulative Preference Shares; (*d*) Debentures. (*Central Association Accountants.*)

39. What is a "Cumulative Preference Share"? The A. B Company is three years in arrear with the dividends on its 1,000 6 per cent. Cumulative Preference shares of £1 each. Would this fact affect the annual accounts? If so, how? (*Royal Society Arts.*)

40. "A company cannot acquire its own shares."

How far is this statement of the law accurate? Explain and apply it in the following cases: (*a*) The Bountiful Coal Company, Ltd., has power under its articles to purchase its own shares. Wylie, a shareholder, sells his shares to the company and sues them for the price. (*b*) In accordance with a special resolution of the Fusoil Company, Ltd., a holder of 6 per cent. Preference shares surrenders his shares to the company in exchange for 5 per cent. Preference shares. (*Central Association Accountants.*)

41. Has a company any implied power (*a*) to borrow money; (*b*) to charge (1) its property, (2) its uncalled capital, as security for a loan? If a

company borrows beyond its powers, what are the remedies (if any) of the lender for the money lent? (*Incorporated Accountants.*)

42. Explain the meaning, and contrast the advantages, of the following classes of shares: Preference Shares; Cumulative Preference Shares; Ordinary Shares; Participating Ordinary Shares; Founders' Shares. (*Royal Society Arts.*)

43. What is a Debenture? Give a draft of the principal terms and conditions which might be expected to be found contained therein. (*Central Association Accountants.*)

44. Explain the meaning of "debentures secured upon the undertaking of a company." (*Chartered Accountants.*)

45. Define: Debenture to Bearer, Registered Debenture, Scrip Certificate, Talon. (*Central Association Accountants.*)

46. Distinguish Debentures and Debenture Stock. Can a company (*a*) lawfully issue debentures which purport to be irredeemable; (*b*) enforce specific performance of a contract to subscribe for debentures of the company? (*Incorporated Accountants.*)

47. "A receiver may be appointed in a debenture holder's action if the security is in jeopardy." Explain this statement. (*Central Association Accountants.*)

48. What mortgages and charges have to be registered by a company, and what particulars thereof are prescribed to be recorded (*a*) by the Registrar, and (*b*) by the company respectively? What are the consequences of default herein on the part of the company, and how may the Register be rectified, and satisfaction of any such mortgages, or charges, be evidenced? (*Incorporated Accountants.*)

49. Under what conditions are you, as auditor, prepared to approve: (*a*) The expense of underwriting the issue of its shares by a new company; (*b*) the expense of issuing debentures at a discount and underwritten. (*Chartered Accountants.*)

50. What is usually the primary object, and what are the principal advantages, of collaterally securing debentures by a trust deed? (*Chartered Accountants.*)

51. What are "Debentures to Bearer"? Consider their advantages and defects from the point of view of (*a*) the company, (*b*) the holder. (*Central Association Accountants.*)

52. Explain the term "Floating Charge."

A company issues a series of debentures limited to £1,000 by way of floating charge, in 1900, and a similar series in 1910. Can the second series rank *pari passu* with the first? (*Central Association Accountants.*)

53. What is a Floating Charge? How far is it liable to be postponed to the rights of other creditors? (*Royal Society Arts.*)

54. What is meant by a "Trust Deed empowering the appointment of a receiver"? Explain the terms "Fixed Charge" and "Floating Charge" (*Chartered Accountants.*)

55. What are the provisions of the Companies Act, 1929, with respect to the (*a*) Registration of Articles; (*b*) application of Table A; (*c*) form and signature of Articles; (*d*) alteration of Articles? (*Incorporated Accountants.*)

56. Upon what special points should an auditor examine the Articles of Association of a company for guidance? (*Chartered Accountants.*)

57. Is there any limitation on the right of a company to alter its Articles? (*Royal Society Arts.*)

58. In what circumstances may debentures be reissued by a company after they have been paid off or purchased by the company? (*Chartered Accountants.*)

59. What is the effect of the Registrar's Certificate of Incorporation of a Company? What rules and regulations should be observed in regard to

the signature by the subscribers of a Memorandum of Association proposed to be presented for registration? (*Chartered Accountants.*)

60. What is meant by "Allotment of Shares"? When and how does an allottee become a member of the company? (*Royal Society Arts.*)

61. What conditions must be complied with before a valid allotment of the share capital of a company can be made? What is the effect of an irregular allotment? What return as to allotments must be made and to whom? (*Incorporated Accountants.*)

62. What duties are imposed upon a company by Section 42 of the Companies Act, 1929, after it has made an allotment of its shares: (*a*) where the shares are allotted for cash; (*b*) where the shares are allotted as fully or partly paid up otherwise than in cash? (*Chartered Accountants.*)

63. What conditions must be complied with. (*a*) before any allotment of shares is made to the public, (*b*) the company exercises any of its borrowing powers? What power has a company to cancel, or subdivide, its shares? (*Incorporated Accountants.*)

64. What is the legal position of a person who has subscribed for shares in a company, the issue of which has been *ultra vires*? (*Chartered Institute Secretaries.*)

65. What are Share Warrants? What rights are conferred by statute on the bearers of such warrants? (*Chartered Accountants.*)

66. In what manner are shares transferred? Has a shareholder an unrestricted right to transfer his shares? Can the directors of a company refuse to register a transfer of shares, with or without specifying any grounds for such refusal? (*Incorporated Accountants.*)

67. You are instructed by the directors of a limited company to examine and initial as correct all new share certificates before they are submitted to them for signature and sealing.

State in detail how you would proceed, and what books and documents you would examine. (*Chartered Accountants.*)

68. Define the following. Certified Transfer; Transfer Fee; Probate Fee; Transfer Receipt; Balance Receipt; Proxy; Letter of Allotment. (*Incorporated Accountants.*)

69. Explain briefly: Certification; Blank Transfer; Surrender; Vendor (in a prospectus); Perpetual Debentures (*Chartered Institute Secretaries.*)

70. What particulars must the register of members of a company contain? What are the provisions of the Companies Act, 1929, with regard to (*a*) inspection, (*b*) obtaining copies of the register? (*Incorporated Accountants.*)

71. In what different ways does a person (*a*) become, (*b*) cease to be a member of a company? (*Incorporated Accountants.*)

72. In what circumstances can a member of a company procure his name to be removed from the register of members on the ground that he was induced to subscribe for his shares by fraud? (*Chartered Accountants.*)

73. In what manner are shares in a limited company transferred? Are there any restrictions on the right of a member to transfer his shares? Can the directors lawfully refuse to register a transfer of shares without specifying any ground for such refusal? (*Incorporated Accountants.*)

74. The officials of limited companies are under obligation to file certain returns with the Registrar of Companies. Are any of these returns of a financial nature? If so, briefly describe them. (*Royal Society Arts.*)

75. What is a "Register of Mortgages"? Where must it be kept, and what information should it contain to comply with the Companies Act? (*Chartered Accountants.*)

76. State the requirements of the Companies Act, 1929, as regards the "Annual Return." When must it be made out and who must sign it? (*Central Association Accountants.*)

77. What reports must be contained in a Prospectus? What are the provisions of the Companies Act, 1929, as to Offers for Sale?

78. What must the Annual Return of (*a*) a private company, (*b*) a public company contain, and to what date must it be brought? (*Central Association Accountants.*)

79. Briefly describe the differences which exist between a public and a private limited company (*Royal Society Arts*)

80. What advantages does a company gain by turning itself into a private company, as defined by Section 26 of the Companies Act, 1929? What provisions does that Act contain for a private company turning itself into a public company? (*Chartered Accountants.*)

81. What is meant by a "private company" under the Companies Act, 1929? Mention some of the privileges and immunities conceded to such a company, and state how it may turn itself into a public company. (*Incorporated Accountants.*)

82. What limit is placed on the number of members of a private company? How is the private character of a company terminated? (*Central Association Accountants.*)

83. What are the conditions under which shares may be issued at a discount?

84. State the various kinds of meetings of shareholders and the rules relating to each. (*Royal Society Arts.*)

85. What statutory obligations are imposed upon limited companies as regards the holding of General Meetings? What rights and remedies are given to shareholders in regard to the summoning of General Meetings? (*Chartered Accountants*)

86. Distinguish between Ordinary and Extraordinary Meetings, referring especially to the business capable of being transacted at either. When can and must they be held? (*Chartered Institute Secretaries.*)

87. What provision is made by the Companies Act, 1929, with respect to the convening of Extraordinary General Meetings of a company on the requisition of shareholders? (*Chartered Accountants.*)

88. How and by whom may a General Meeting of a limited company be called, and what voting powers will its members have, where the Articles of Association of the company contain no provisions dealing with these matters? (*Chartered Accountants*)

89. What powers has the chairman of a company meeting to adjourn the meeting? Can he be compelled to adjourn a meeting? (*Royal Society Arts.*)

90. State briefly the distinctions between an "ordinary," "extraordinary," and "special" resolution of a company. For what different purposes is a special resolution required by statute? (*Chartered Accountants.*)

91. By Clause 1 of the Memorandum of Association of the Catchpenny Company, Ltd., the capital consists of £6,000 divided into 3,000 Preference shares and 3,000 Ordinary shares of £1 each. Holders of preference shares are entitled to a preferred dividend of 5 per cent. and to share the balance of profits with the ordinary shareholders. The directors now propose to devote the whole of the balance of profits after payment of the preferred dividend to the ordinary shareholders What meetings and resolutions are necessary if this alteration is to be made? (*Central Association Accountants.*)

92. Are limited companies under statutory obligation to keep Minute Books? Are companies' auditors entitled to inspect these books?

Mention two items for which you would need the sanction of the Shareholders' Minute Book, and three for which reference to the Directors' Minute Book would be necessary. (*Chartered Accountants.*)

93. What information would you expect to derive from the "Board Minute Book" of a company? Would you consider that entries in such book were, in all cases, sufficient authority for you to approve payments or transactions connected therewith? If not, state some exceptions. (*Chartered Accountants.*)

94. What are the "powers and duties of auditors" under the Companies Act, 1929? (*Chartered Accountants.*)

95. Can the directors of a limited liability company fix the remuneration of the auditors, or must the same be approved by the members in general meeting? Comment hereon. (*Central Association Accountants.*)

96. If a person other than a retiring auditor to a limited liability company is nominated for the appointment, what formalities are necessary according to Section 132 of the Act of 1929? (*Central Association Accountants.*)

97. Has an auditor the right of access to the Board Minute Book of a Company to which he has been appointed auditor? What are the provisions, if any, of the Companies Act of 1929 in regard thereto? (*Central Association Accountants.*)

98. What statutory books are compulsory for use by a limited liability company? Give a short statement as to what is required to be entered in each book. (*Chartered Accountants.*)

99. What are the returns required under the Acts to be filed at the office of the Registrar of Companies; and what other documents would you expect to find on the file? (*Chartered Accountants.*)

100. Define a "special resolution," and give two instances where such a resolution would be necessary to authorise transactions you are asked to certify as auditor to a limited company. (*Chartered Accountants.*)

101. For what purposes are the following books kept, as applied to a limited company: (*a*) Allotment Book: (*b*) Register of Members; (*c*) Minute Book; (*d*) Register of Mortgages? (*Chartered Accountants.*)

102. Under the Companies Act, what books and documents are open to the inspection of the public at the registered office of the company? (*Chartered Accountants.*)

103. State in detail the provisions contained in the Companies Act, 1929, for the removal of defunct companies from the Register. (*Incorporated Accountants.*)

104. The prospectus of the 5 per cent. War Loan, 1929–47, announced that applicants were entitled to have their holdings allotted in any of the following forms: (*a*) Inscribed as Stock; (*b*) Registered as Stock; (*c*) Bonds to Bearer. Explain the meaning of these terms of issue, and describe the relative advantages and disadvantages of the three classes of security. (*Royal Society Arts.*)

105. Explain the terms: (1) Nominal Capital; (2) Issued Capital; (3) Subscribed Capital; (4) Paid-up Capital; and (5) Unpaid Calls. Illustrate your answer by showing how these items are stated in the balance sheet of a limited company. (*Chartered Institute Secretaries.*)

106. Describe the steps necessary for the actual formation of a new company. (*Royal Society Arts.*)

107. Define shortly: Contributory; Cumulative Preference Shares; Floating Charge; Member; Statutory Meeting. (*Chartered Accountants.*)

108. What legal documents of a company should an auditor examine prior to the commencement of a first audit, and to what points should his special attention be directed in the examination? (*Incorporated Accountants.*)

109. What do you understand by (*a*) a Cumulative Preferential Dividend, (*b*) an Issue of Bonus Shares, (*c*) a Founder's Share? For what purposes are founders' shares usually employed? (*Chartered Accountants.*)

110. The directors of a joint stock company pay dividends out of capital The company is afterwards wound up. Will the directors be under any, and, if so, what liability, collectively or individually, to the liquidator? (*Chartered Accountants.*)

111. Give instances of the illegal expenditure of the Capital of a company. (*Incorporated Accountants.*)

112. Give examples of acts which are *ultra vires* (*a*) of directors, (*b*) of

the company, and explain the difference between the two classes. You are to assume for the purposes of this question that the company in question was formed to carry on the business of manufacturers of explosives. (*Royal Society Arts.*)

113. State briefly under what circumstances a company limited by shares may (*a*) reduce its capital; (*b*) alter its Memorandum of Association; (*c*) wind up voluntarily. (*Incorporated Accountants.*)

114. State concisely the law relating to Redeemable Preference Shares.

115. Define: "B List of Contributories"; "Cumulative Preference Shares"; "Extraordinary Resolution"; and "Floating Charge" (*Chartered Accountants.*)

116. As auditor of a limited company, you are asked to sign the understated Balance Sheet for the purpose of inclusion in the Annual Return as required by Section 110 of the Companies Act, 1929.

Make such comments as you may consider necessary.

BALANCE SHEET.

	£		£
To Capital issued	125,000	By Freehold and Leasehold Land and Buildings, Goodwill and Trade Marks	152,940
,, Debentures	50,000	,, Leasehold Improvements	8,262
,, Sundry Creditors ..	12,860	,, Sundry Debtors (less provision)	9,374
,, Profit and Loss Account (Balance) ..	9,112	,, Stock-in-hand	14,321
		,, Expenses paid in advance	154
		,, Investments	10,963
		,, Cash at Bank	958
	£196,972		£196,972

(*Chartered Accountants.*)

117. Rule a specimen page for a "Register of Transfers" for a limited company, and illustrate its working by an example. (*Chartered Institute Secretaries.*)

118. Give specimen rulings of (1) a Share Ledger to provide for two classes of shares and to show payments of calls, and (2) of a Transfer Register for use with the same. (*Chartered Accountants.*)

119. On December 16, 19.., the secretary of Willowmeres, Ltd., received the undermentioned transfers, dated December 14, 19.. :—

Seller.	Buyer	No. of Shares transferred.	Distinctive Numbers.
Harry Kirk, Picture Dealer, 314 Greek St., W.	Edward Herriot, Solicitor, 618 South Place, E.C.	2,000	82096–84095
Otto Gold, Jeweller, 1782 Oxford St., W.	Matthew Grant, Farmer, Sheréton, Oxon.	1,500	61085–62584

Both the transfers relate to fully paid Ordinary Shares of £1 each.

Show how these transfers should be recorded in the company's books. (*Royal Society Arts.*)

120. Rule a Form of Register of Members and Share Ledger for Brown, Jones & Company, Ltd., and record the following transactions.—

August 1, 19. .—Henry Jones, ironmonger, Philpot Street, London, E.C., applied for 10,000 Ordinary Shares of £1 each, and paid 2s. 6d. per share on application.

August 10th.—The directors allotted Henry Jones 8,000 shares, on which 5s. per share was payable on application and allotment.

August 20th.—Henry Jones paid the balance due from him in respect of the shares allotted to him. (*Chartered Accountants*)

121. Explain concisely the meanings of the terms "member," "statutory meeting," "floating charge." What meanings are assigned to the terms "promoter" and "expert" by the section of the *Companies Act,* 1929, dealing with the question of liability for statements in a prospectus? (*Chartered Accountants*)

122. The recent Report of a banking company referred to the fact that "the reserved liability amounted to £10,000,000."

Explain the significance of this statement. (*Chartered Accountants.*)

123. A limited company redeemed ten 5 per cent. Debentures of £100 by purchase in the market at 98 early in 19 In November of that year the same Debentures were reissued by the company at par

Is this transaction *intra vires*? If you think it is, state your authority, give the entries you would expect to find in the company's books, and detail your procedure as auditor in connection therewith. (*Chartered Accountants.*)

124. What is (*a*) a Coupon; (*b*) a Talon? Describe the occasions upon which an auditor is concerned with them. (*Chartered Accountants.*)

125. Briefly describe the uses and contents of the undermentioned registers as employed by limited companies.

State the occasions, if any, upon which the auditor is concerned with them: (*a*) Register of Probates, (*b*) Register of Mortgages; (*c*) Register of Balance Certificates, (*d*) Register of Sealed Documents. (*Chartered Accountants.*)

CHAPTER V

JOINT STOCK COMPANIES—II.

COMPANY ACCOUNTANCY.

EVERY company must cause to be kept proper books of account with respect to.—

(a) all receipts and payments, and the matters in respect of which they take place,
(b) all sales and purchases of goods;
(c) the assets and liabilities (S. 122).

Severe penalties are provided for default of this provision. Moreover, if the company is wound up and it is shown that proper books of account were not kept throughout the two years immediately preceding the commencement of the winding up, every director, manager or other officer of the company who was knowingly a party to or connived at the default, unless he can show that he acted honestly and that in the circumstances in which the company's business was carried on the default was excusable, is liable to imprisonment.

For this purpose proper books of account comprise such books or accounts as are necessary to exhibit and explain the transactions and financial position of the company, including books containing entries from day to day in sufficient detail of all cash received and cash paid, and, where the trade or business has involved dealings in goods, statements of the annual stocktakings and (except in the case of goods sold by way of ordinary retail trade) of all goods sold and purchased, showing the goods and the buyers and sellers thereof in sufficient detail to enable those goods and those buyers and sellers to be identified (S. 274).

It has already been mentioned that the ordinary books of account suitable for use in any particular trade by a private firm are, in similar circumstances, suitable for the needs of a limited company. There are, however, certain events that may, and others that must, occur in the history of a limited company which are outside the experience of a private firm, and which need to be specially considered.

OPENING ENTRIES.

In the previous chapter, the various steps in the formation of a public company were treated from the statutory and statistical points of view. Of the procedure there described, the first entries

ISSUE OF SHARE CAPITAL.

SUBSIDIARY CASH BOOK.

(APPLICATIONS)

Date	No of Allotment Letter.	Shareholder. Name	Shareholder. Address.	Folio of Allotment List	Folio Register of Members	Cash Received. £	s	d.	Folio of General Cash Book.	Amounts Transferred to General Cash Book. £	s.	d
19.. Oct 9	14	Dickson, George	The Parade, Margate	3	641	50	0	0				
„ 9	62	Rogers, John	14, South Place, E C.	4	700	60	0	0		110	0	0

(ALLOTMENTS AND CALLS)

Date	No of Call Notice	Name	Call Book Folio	Share Register Folio	Amount £	s.	d.	Totals Transferred to Cash Book £	s	d	Folio of Cash Book	Remarks.
19 Nov. 9	372	Stanwell, John	16	384	25	0	0					
„ 9	241	Robinson, William	21	841	50	0	0					
„ 9	314	Drivon, Robert	30	642	100	0	0	175	0	0		

NOTE —With suitable alteration of the headings, the samo ruling is equally suitable for the entries relating to calls on the issue of Debentures.

affecting the financial books would arise in connection with the applications for and allotment of shares, and subsequent calls, if any.

Example.—Rayon d'Or, Limited, opened a subscription list on December 17th for the following:—

100,000 7 % Preference Shares of £1 each.
100,000 Ordinary Shares of £1 each.
1,000 6 % Debentures of £50 each.

Both classes of shares were payable:—

5s. on application.
5s. on allotment.
5s. one month after allotment.
5s. two months after allotment.

The debentures were payable:—

£10 on application.
£20 on allotment.
£20 one month after allotment.

The subscription list was closed on December 20th, the whole of the ordinary shares and debentures being subscribed, while the preference issue was over-subscribed to the extent of 10,000 shares. On December 23rd the directors proceeded to allotment, sending out on that day allotment letters for the whole share and debenture issues, and also letters of regret, with cheques for the deposits paid, to the applicants for the 10,000 preference shares over-subscribed. The total amount due on allotment was paid on or before December 31st, and the two calls were also duly paid. The entries necessary to record these transactions are given at pp. 231–235.

In connection with the above issue, three separate banking accounts should be opened at the company's bankers: the first for the ordinary share issue, the second for the preference, and the third for the debenture issue When the list is closed, the pass books relating to these accounts, each with the relevant application forms (printed on three differently coloured papers), will be handed to the company. If the Bank has not yet adopted the modern method of machine accounting, and automatically the pass books are not in loose leaf form, the company should arrange for the Bank to supply sheets rather than bound books, as the sheets expedite handling and checking. A special Cash Book, sometimes called a *Shareholders Cash Book*, containing separate columns for each class of capital, is then written up from the pass books and application forms. It is particularly desirable that the bankers should be requested to enter the application moneys in the pass books under the names of the applicants, and not under the number of the application form, for however the latter course may economise the time of the banker, it only complicates the work of the company accountant. The totals only of this special Cash Book are, in due course, incorporated in the general Cash Book of the company. The same totals are also passed into the Ledger by means of Journal entries.

Where there are a large number of small applications, including applications for two or more classes of shares from the same person, the employment of a special columnar cash book greatly facilitates the work of balancing, but where the issue is small a special column

or columns may be ruled in the general Cash Book to accommodate the entries, the totals of which can be extended to the ordinary cash columns.

A similar method to that described above in connection with the application moneys is employed for the allotment receipts and for each call. In this way the general Cash Book is relieved of a multitude of items, and a convenient, detailed record of share capital receipts is provided for the purpose of posting the Share

OPENING ENTRIES.

[See p 230.]

JOURNAL

			Dr			Cr		
		L. F.	£	s	d	£	s	d.
19.. Dec 23	Application and Allotment Account * (Ordinary Shares) Dr.	7	50,000	0	0			
	To Ordinary Share Capital Account ..	1				50,000	0	0
	Being 10s per share (5s on application and 5s on allotment) on 100,000 Ordinary Shares of £1 each allotted as per resolution of Directors, dated December 23, 19...							
" 23	Application and Allotment Account (7 % Preference Shares) Dr.	9	50,000	0	0			
	To Preference Share Capital Account ..	3				50,000	0	0
	Being 10s per share (5s. on application and 5s on allotment) on 100,000 Preference Shares of £1 each allotted as per resolution of Directors, dated December 23, 19..							
" 23	Application and Allotment Account (6 % Debentures) Dr.	11	30,000	0	0			
	To Debentures Account . .	5				30,000	0	0
	Being £30 per debenture on 1,000 Debentures of £50 each allotted as per resolution of Directors, dated December 23, 19 ..							
19 . Jan. 23	First Call Account (Ordinary Shares) Dr.	13	25,000	0	0			
	To Ordinary Share Capital Account ..	1				25,000	0	0
	Being the First Call of 5s. per share on 100,000 Ordinary Shares made pursuant to the conditions of issue							
" 23	First Call Account (Preference Shares) Dr.	15	25,000	0	0			
	To Preference Share Capital Account .	3				25,000	0	0
	Being the First Call of 5s. per share on 100,000 Preference Shares of £1 each made pursuant to the conditions of issue							
" 23	Call Account (6 % Debentures) Dr.	17	20,000	0	0			
	To Debenture Account	5				20,000	0	0
	Being final instalment of £20 on 1,000 Debentures of £50 each pursuant to the conditions of issue.							
Feb. 23	Final Call Account (Ordinary Shares) Dr.	13	25,000	0	0			
	To Ordinary Share Capital Account ..	1				25,000	0	0
	Being the Final Call of 5s. per share on 100,000 Ordinary Shares of £1 each made pursuant to the conditions of issue							
" 23	Final Call Account (Preference Shares) Dr.	15	25,000	0	0			
	To Preference Share Capital Account .	3				25,000	0	0
	Being the Final Call of 5s. per share on 100,000 Preference Shares of £1 each made pursuant to the conditions of issue							
			£250,000	0	0	£250,000	0	0

* Separate accounts are frequently opened for "application" and "allotment," but where fewer shares are allotted than are applied for, this method involves transfers from Application Account to Allotment Account of surplus application moneys in reduction of allotment instalments

CASH BOOK.

NOTE.—In order to save space these items have been shown in one column. In practice all the details composing the various totals would be shown in a separate column for each class of Capital in order to facilitate the balancing of each instalment.

DR. CR.

19..		L. F	£	s.	d	19..		L. F.	£	s	d.
Dec 20	To Sundry Persons Amounts received on application being 5s. per share on 100,000 Ordinary Shares applied for ..	7	25,000	0	0	Dec 23	By Sundry Persons Amounts returned, being 5s. per share on 10,000 Preference Shares applied for but not allotted *	9	2,500	0	0
„ 20	„ Sundry Persons. Amounts received on application being 5s. per share on 110,000 Preference Shares applied for ..	9	27,500	0	0		* *Note.*—This money would be used in reduction of allotment instalments in suitable cases.				
„ 20	„ Sundry Persons Amounts received on application being £10 per debenture on 1,000 Debentures applied for	11	10,000	0	0						
„ 31	„ Sundry Persons. Amounts received on allotment being 5s. per share on 100,000 Ordinary Shares allotted ..	7	25,000	0	0						
„ 31	„ Sundry Persons. Amounts received on allotment being 5s. per share on 100,000 Preference Shares allotted ..	9	25,000	0	0						
„ 31	„ Sundry Persons. Amounts received on allotment being £20 per debenture on 1,000 Debentures allotted	11	20,000	0	0						
19... Jan. 23	„ Sundry Persons Amounts received in respect of First Call of 5s per share on 100,000 Ordinary Shares . .	13	25,000	0	0						
„ 23	„ Sundry Persons. Amounts received in respect of First Call of 5s per share on 100,000 Preference Shares .. .	15	25,000	0	0						

CASH BOOK—*continued*

19...		L F	£	s	d	19 .		L F	£	s	d.
Jan. 23	To Sundry Persons Amounts received in respect of Final Call of £20 per Debenture on 1,000 Debentures allotted	17	20,000	0	0						
Feb 23	„ Sundry Persons. Amounts received in respect of Final Call of 5s per share on 100,000 Ordinary Shares	13	25,000	0	0						
„ 23	„ Sundry Persons Amounts received in respect of Final Call of 5s. per share on 100,000 Preference Shares . ..	15	25,000	0	0						

LEDGER.

1 ORDINARY SHARE CAPITAL ACCOUNT. 1

DR CR.

			£	s	d			J.	£	s	d.
						19.. Dec. 23	By Application and Allotment Account .. .	1	50,000	0	0
						19.. Jan 23	„ First Call Account .	1	25,000	0	0
						Feb. 23	„ Final Call Account ..	1	25,000	0	0
								£	100,000	0	0

3 7 % PREFERENCE SHARE CAPITAL ACCOUNT. 3

DR. CR.

			£	s	d			J.	£	s.	d.
						19... Dec. 23	By Application and Allotment Account	1	50,000	0	0
						19... Jan 23	„ First Call Account ..	1	25,000	0	0
						Feb 23	„ Final Call Account ..	1	25,000	0	0
								£	100,000	0	0

5 6 % DEBENTURES ACCOUNT. 5

DR CR.

			£	s	d			J.	£	s	d.
						19.. Dec. 23	By Application and Allotment Account	1	30,000	0	0
						„ 23	„ Call Account	1	20,000	0	0
									£50,000	0	0

7 APPLICATION AND ALLOTMENT ACCOUNT (ORDINARY SHARES). 7

DR.												CR
19... Dec. 23	To Share Capital Account ..	1	50,000	0	0	19.. Dec. 20	By Cash—Sundry Persons (on application) ..	1	25,000	0	0
						,, 31	,, Cash—Sundry Persons (on allotment)	1	25,000	0	0
			£50,000	0	0				£50,000	0	0

Column heads: J, £, s, d.; C B, £, s, d.

9 APPLICATION AND ALLOTMENT ACCOUNT (7 % PREFERENCE SHARES) 9

Date	Dr.	J.	£	s.	d	Date	Cr.	C B	£	s.	d.
19... Dec. 23	To Share Capital Account ..	1	50,000	0	0	19 .. Dec 20	By Cash—Sundry Persons (on application) ..	1	27,500	0	0
,, 23	,, Cash—Sundry Persons (application money returned)* ..	1	2,500	0	0	Dec. 31	,, Cash—Sundry Persons (on allotment) ..	1	25,000	0	0
			£52,500	0	0				£52,500	0	0

* Frequently where allotments are made of fewer shares than are applied for, the surplus moneys received on application are retained and applied in reduction of the amounts due on allotment Where separate Application and Allotment Accounts are kept this method involves a transfer of the surplus so applied as under :—

		£ s. d.	£ s d.
Application Account (Preference Shares) ..	*Dr.*	2,500 0 0	
To Allotment Account (Preference Shares) ..			2,500 0 0
Being transfer of application moneys 5s. per share on 10,000 shares oversubscribed applied in payment of allotment instalments			

11 APPLICATION AND ALLOTMENT ACCOUNT (6 % DEBENTURES). 11

Date	Dr.	J.	£	s.	d.	Date	Cr.	C. B	£	s	d.
19 .. Dec. 23	To Debentures Account ..	1	30,000	0	0	19... Dec. 20	By Cash—Sundry Persons (on application) .	1	10,000	0	0
						,, 31	,, Cash—Sundry Persons (on allotment) ..	1	20,000	0	0
			£30,000	0	0				£30,000	0	0

13 CALL ACCOUNT (ORDINARY SHARES).* 13

Date	Dr.	J.	£	s	d.	Date	Cr.	C B	£	s	d.
19 . Jan. 23	To Share Capital Account (First Call) .	1	25,000	0	0	19... Jan 23	By Cash—Sundry Persons (First Call)	1	25,000	0	0
Feb. 23	,, Share Capital Account (Final Call)	1	25,000	0	0	Feb. 23	,, Cash—Sundry Persons (Final Call)	1	25,000	0	0
			£50,000	0	0				£50,000	0	0

* In practice a separate Ledger Account would be opened for each Call.

15 CALL ACCOUNT (7 % PREFERENCE SHARES).* 15

DR						CR.					
19.		J	£	s.	d.	19..		C. B	£	s.	d.
Jan 23	To Share Capital Account (First Call)	1	25,000	0	0	Jan 23	By Cash—Sundry Persons (First Call) . ..	1	25,000	0	0
Feb 23	„ Share Capital Account (Final Call)	1	25,000	0	0	Feb. 23	„ Cash—Sundry Persons (Final Call)	1	25,000	0	0
			£50,000	0	0				£50,000	0	0

* In practice a separate Ledger Account would be opened for each Call.

17 CALL ACCOUNT (6% DEBENTURES) 17

DR						CR					
1919		J.	£	s.	d	1919.		C B	£	s.	d.
Jan 23	To Debentures Account (Final Call)	1	20,000	0	0	Jan. 23	By Cash—Sundry Persons (Final Call) .. .	1	20,000	0	0

Register. These subsidiary allotment and call cash books are written up from the application letters, and from the strips attached to the allotment letters and call notices (see p. 239), which are handed over daily to the company by the bankers: and the Cash Book entries are subsequently checked with the separate pass books. When the application, allotment or call (as the case may be) is complete, the amounts standing to the credit of the separate banking accounts are transferred to the credit of the company's general account At the same time the subsidiary Cash Books are balanced and closed. If any balances remain on the subsidiary Cash Books, they represent unpaid allotment moneys or calls. A list of these should be prepared, showing how the amounts are made up, and the necessary steps should be taken to secure payment. Forms of subsidiary Share Capital Cash Books are given at p. 229.

ISSUE OF SHARES AT A PREMIUM.

With the exception of certain parliamentary companies governed by the *Companies Clauses Consolidation Acts*, 1845, no limited company has power to issue shares at a discount, except under the restrictions of S. 47 (see p. 175), but a company may issue its shares at any premium which its popularity can command. It is obvious that when a company's shares are quoted at a premium, the issue of fresh capital at par to strangers would be unfair to the existing shareholders, and the whole proceeding would evince foolish neglect on the part of the directors to utilise the opportunity for strengthening the company's financial position. An issue of fresh capital at a premium is usually first offered to the existing shareholders *pro rata*, and allotment and renunciation letters are sent to them as described at pp. 166–173. The entries in the financial books, necessitated by the issue of shares at a premium, are shown at pp. 236–7.

Application and Allotment Sheets, as described in the previous chapter, should be prepared for the service of the new issue of shares, an additional column being provided for the amount due by way of premium on each allotment. No alteration in the Share Register is necessary. The amount of the Premium on Shares Account should be separately stated on the liability side of the Balance Sheet as a capital reserve, and should not be merged in the general reserve. If the amount is added to the general reserve it is apt to be used for general losses and depreciations, which should be met out of current revenue; or even for payment of dividends, whereas, it is submitted, such funds should constitute an addition to the company's working capital, or be used to meet exceptional capital losses. This suggestion is, however, a counsel of prudence rather than of law, for it would appear from the decision in *Hoare & Co*, [1904] 2 Ch. 208, that premiums obtained from the issue of shares may be used in any way the company may decide so long as it is not opposed to the company's regulations. In some cases the Articles, or the special terms of issue, provide that premiums shall be carried to capital reserve. But this appears to conflict with the dictum of Romer, L.J., *In re*

Illustration.—Rayon d'Or, Limited, offered, on June 1, 19.., for public subscription 100,000 Ordinary Shares of £1 each, part of its unissued capital, at the price of £1 5s. per share, payable 5s. per share on application, 10s. on allotment (including the premium of 5s. per share), and the balance (10s.) in one month from the date of allotment. The subscription list closed on June 3, 19.., when the whole of the issue had been subscribed. The Directors met on June 4th, and proceeded to allotment All moneys due on allotment and call were paid on or before June 6th and July 6th respectively.

ISSUE OF SHARES AT A PREMIUM.

JOURNAL.

		L. F.	£	s.	d.	£	s	d.
19 . June 4	Applications and Allotment Account . . Dr.		75,000	0	0			
	To Ordinary Share Capital Account	1				50,000	0	0
	,, Premiums on Shares Account	7				25,000	0	0
	Being 5s per share on application, and 10s on allotment, including the premium of 5s per share on 100,000 Ordinary Shares allotted as per resolution of Directors, dated June 4, 19..							
July 4	Call Account .. . . Dr.	5	50,000	0	0			
	To Share Capital Account	1				50,000	0	0
	Being 10s per share on 100,000 Ordinary Shares of £1 each in respect of the First and Final Call made as per conditions of issue and resolution of Directors, dated July 4, 19..							

LEDGER.

1 ORDINARY SHARE CAPITAL ACCOUNT. 1

DR. CR.

			£	s	d			J.	£	s	d
						19.. June 4	By Application and Allotment Account .	1	50,000	0	0
						July 4	,, Call Account	1	50,000	0	0
								£	100,000	0	0

3 APPLICATIONS AND ALLOTMENT ACCOUNT (ORDINARY SHARES). 3

DR.								CR.			
19..		J.	£	s	d.	19..		C.B.	£	s.	d.
June 4	To Share Capital Account	1	50,000	0	0	June 4	By Cash	1	25,000	0	0
" 4	" Premium on Shares Account .. .	1	25,000	0	0	" 6	" Cash	1	50,000	0	0
			£75,000	0	0				£75,000	0	0

5 CALL ACCOUNT. 5

DR								CR.			
19		J.	£	s	d	19.		C.B	£	s	d.
July 4	To Share Capital Account ..	1	50,000	0	0	July 6	By Cash	1	50,000	0	0

7 PREMIUM ON SHARES ACCOUNT. 7

DR								CR			
			£	s	d	1919		J.	£	s.	d.
						June 4	By Application and Allotment Account .	1	25,000	0	0

1 CASH BOOK. 1

DR									CR.		
19 .		L.F.	£	s.	d.				£	s.	d.
June 4	To Sundry Persons (Application Account)	3	25,000	0	0						
" 6	" Sundry Persons (Allotment and Premium) ..	3	50,000	0	0						
July 6	" Sundry Persons (Call Account) . ..	5	50,000	0	0						

The National Bank of Wales, Ltd., [1899] 2 Ch. 629, at p. 655; "Premiums on the issue of shares are not ordinary trading profits; they are rather in the nature of an increase of capital."

CALLS.

It has been shown in the two preceding illustrations how calls are passed in total into the financial books of a company.

The following points of detail in connection with calls may also be mentioned.

The due dates and amounts of the calls are frequently specified in the prospectus When this is not the case, the directors, conformably with the regulations in the Articles, will authorise calls, as and when required, by resolutions duly recorded in the Directors' Minute Book. A call resolution must state the amount of the call and the date when it is payable. The directors are bound by the Articles of Association or by any regulations as to calls which form part of the terms of issue, but, in the event of liquidation, the liqui-

RAYON D'OR, LIMITED.

CALL BOOK.

Second and Final Call of *5s.* per share on *100,000 Ordinary* Shares of £1 each.
Date Call made *July 4, 19..*, payable on or before *July 18, 19...*

No of Call Letter.	Share Ledger Folio	Shareholder.			No. of Shares Held	Amount of Call Due at 5s	Paid.			Outstanding.			Remarks.
		Name	Address	Description		£ s. d.	C B. Folio	Date.	Amount £ s. d.	Amount £ s. d.	No of Days	Interest Due £ s. d.	
240	1/47	Ross, Robert	41 Greek St., Soho, W	Merchant	400	100 0 0	321	19.. Jan. 2	100 0 0				NOTE —In this column will be noted any instructions received to apply to Bankers, or persons acting under powers of attorney, etc., for further calls
241	1/48	Chalmers, George	Maidenhead, Berks	Captain, D S O.	200	50 0 0	320	„ 1	50 0 0				
242	1/49	Cross, Mary	Park St., Southend	Miss	100	25 0 0	321	„ 2	25 0 0				
243	1/50	Ravary, Ann	16 Gloucester Terrace, W	Mrs.	200	50 0 0	321	„ 2	50 0 0				

dator is not so bound, and may proceed to make a call immediately he is appointed.

The advisability, in the case of large issues, of employing separate cash books and opening separate bank accounts for each call and for each class of capital has already been mentioned (see p. 230).

The form of a call letter is given on p. 239

The date when a call is "made" is, if the Articles so provide, the date of the resolution authorising the call. If there is no such provision, the date is that on which notice is given to the shareholder Money due under a properly authorised call is a speciality debt, and may be sued for at any time within twenty years [S. 20, ss (2)]. It is usual to restrict the amount of any one call to a certain proportion, say (as set out in Table A), one-fourth of the nominal amount of the share. It is also usual to allow an interval of at least one month between calls, and to give from fourteen to twenty-one days' notice of the intention to make a call. Table A requires intervals of one month.

Calls are payable direct to those companies which adopt Table A without modification (Art. 11), but this is inconvenient except in the case of small companies. The usual practice is to make calls payable at the company's bankers.

There appears to be no doubt that when a company is indebted to a member as

the result of *bona-fide* transactions, it may, so long as it is a going concern, discharge its debt by crediting the amount to the shareholder in satisfaction of calls due Care should be taken in such cases that proper receipts are exchanged as vouchers for the bookkeeping entries.

(*Call Letter.*)

No. *36.*

RAYON D'OR, LIMITED,
962 FINSBURY CIRCUS,
LONDON, E.C.
July 4, 19..

DIRECTORS:
(Names)

ORDINARY SHARES.

DEAR SIR (or MADAM),

I beg to inform you that in accordance with a resolution of the Directors dated July 2, 19.., a call of 5s. per share on the above shares has been made.

The amount due from you in respect of the *100* shares standing in your name is *£25 0 0*, and this amount should be sent on or before July 18, 19.., together with this notice *entire* to the Company's Bankers, the National Provincial Bank, Ltd., Princes Street, E C., who will receipt and duly return this notice

If you will forward the receipt attached hereto, together with your share certificates, the payment of the call will be indorsed, and the certificate returned to you.

By order of the Board,
James Conolly,
Secretary.

GEORGE DIXON, ESQ.,
1754 CANNON STREET,
E.C.

All cheques should be made payable to BEARER and crossed "Not negotiable."

No. *36.*

RECEIVED for account of Rayon d'Or, Limited, the amount of the above-mentioned call as stated.

For National Provincial Bank, Ltd.,
Robert Craig,
Cashier.
Date, *July* 18, 19...

No. *36.*

RAYON D'OR, LIMITED.

Call of 5s. per share on issue of 100,000 Ordinary Shares.

£25 0 0.

Date, July 18, 19..

Calls in Advance.—Power is usually taken in the Articles to receive the payment of calls in advance at a fixed rate of interest (S. 48). Table A fixes the maximum rate at 6 % without the sanction of the company in general meeting. Such advance payments form no part of a company's capital, but are loans carrying interest at the authorised rate, which must be paid even if there are no profits out of which to pay them (*Lock* v. *Queensland Land Company*, [1896] App. Ca 461). Calls paid in advance are posted to a *Calls in Advance Account*, and, when the call is actually made, this account is closed by transfer to the Share Capital, or Call,

Account. The interest due on calls paid in advance does not appear in the Share Ledger, but is dealt with by Journal entry in the ordinary way.

JOURNAL.

		L F.	£	s	d.	£	s	d.
19... July 5	Interest Account .. . . Dr. To Sundry Members— For interest to date at 6 % on Calls paid in advance							

Calls in Arrear.—As a general rule, Articles of Association provide that no member whose calls are in arrear shall vote at the meetings of the company. Sometimes, too, power is taken to retain any dividends declared on the shares as a set-off against unpaid calls, or other debts due from members: but, in order to secure a Stock Exchange quotation, fully-paid shares must be free from lien. Care must be taken to comply strictly with the provisions respecting calls contained in the Articles, since failure to do so may prejudice proceedings to enforce the payment of calls. Interest is usually charged on unpaid calls, sometimes at as high a rate as 10 %. The rate of interest fixed by Table A is 5 %. Generally the directors are given power to waive the interest at their discretion. A company cannot enforce the payment of interest unless power to charge it is reserved in the Articles.

The total amount unpaid at any given date on shares allotted is the amount of the debit balances of the allotment and call accounts. Interest charged on calls in arrear is not usually entered in the Share Ledger, but is dealt with in the General Ledger by Journal entry.

JOURNAL.

		L F	£	s.	d	£	s	d.
19... July 5	Sundry Shareholders .. .. Dr. To Interest Account— For interest to date at 6 % on Calls in arrear							

In the Balance Sheet the shareholders are treated as Sundry Debtors for the amount of the interest owing. It may, however, be desirable in many cases to create a reserve against these amounts, if the receipt of the interest is at all doubtful.

FORFEITED SHARES.

When a reasonable time has elapsed after making a call a list of defaulters must be prepared by comparing the bank pass book for the call with the relative call book. The list is then submitted to the directors, and the series of letters mentioned at p. 136 is brought into use. The annual accounts of a company must show separately the amounts standing to the credit of the various classes of capital, and also give details of shares forfeited, calls in arrear, and calls paid in advance. Consider the following illustration.

BALANCE SHEET.

	£	s.	d.	£	s.	d.	£	s.	d.
To Nominal Capital—									
100,000 Ordinary Shares of £1 each .. .	100,000	0	0						
100,000 7 % Preference Shares of £1 each	100,000	0	0						
£	200,000	0	0						
" Issued Capital—									
100,000 Preference Shares of £1, each fully called	100,000	0	0						
Less 100 shares forfeited as per resolution of Directors, dated July 5, 19..	100	0	0						
				99,900	0	0			
100,000 Ordinary Shares of £1 each, 10s. per share called up	50,000	0	0						
Less Calls in Arrear	500	0	0						
	49,500	0	0						
Add Calls paid in Advance	400	0	0						
				49,900	0	0			
							149,800	0	0
" Forfeited Preference Shares Account, amount paid on shares forfeited as above							50	0	0

Since the total amount of capital called up always stands as a credit in the Share Capital Account, it follows that, when a holder is deprived of his rights by forfeiture, the issued capital is reduced to the extent of the forfeiture. It follows also that the original entry crediting the Share Capital Account with the amount due on the whole of the shares allotted must be adjusted. This is effected by a Journal entry, debiting the Share Capital Account with the full amount called to date (including Application and Allotment Monies), and crediting the Application and Allotment Account (if amounts remain unpaid on allotment) and the Call Accounts with the amounts unpaid in respect of the shares; crediting Forfeited Shares Account with the balance representing the amount paid on the shares. Continuing the illustration given above, the entry effecting the forfeiture would be as shown on pp. 242–3.

Although under most articles, as in Table A, Art. 27, the ex-shareholder remains liable for the unpaid calls until the company receives payment in full of the nominal amount of the shares, the claim is seldom worth pressing. The unpaid calls are regarded as a bad debt, and the matter is considered to be closed so far as the defaulter is concerned by the entry of forfeiture shown above. The shares themselves may be subsequently reissued.

Had the forfeited shares in the illustration given above been reissued at a higher price than 10s. per share, the increase would represent a premium, and would be transferred to Premium on Shares Account. There is, seemingly, no *legal* obstacle to the treatment of such moneys as profit available for division in the ordinary way, but see p. 137 for a statement of opinion on this point.

In order to adjust the Share Register, an entry is usually passed through the Transfer Register, as though the transaction were an ordinary one, transferring the shares from the defaulting member to a Forfeited Share Account. Upon their reissue, the shares are, by means of a similar entry in the Transfer Register, transferred from the above account to the new purchaser.

JOURNAL.

		L F	£	s	d	£	s	d
19 .. July 5	Preference Share Capital .. .. Dr		100	0	0			
	To Call Account					50	0	0
	,, Forfeited Shares Account					50	0	0
	Being 100 £7 % Preference Shares, 10s per share paid up [*Here follows the name of the holder, or the distinctive numbers of the shares*] forfeited as per resolution of Directors, dated July 5, 19..		£100	0	0	£100	0	0

An alternative method of treatment, which is theoretically more accurate, is as follows:—

JOURNAL.

		L F	£	s	d	£	s	d.
19 .. July 5	Preference Share Capital Account Dr	1	100	0	0			
	To Forfeited Shares Account	3				100	0	0
	Being 100 7 % Preference Shares, fully called up, forfeited as per resolution of the Directors, dated July 5, 19. .							
,, 5	Forfeited Shares Account . .. .. Dr.	3	50	0	0			
	To Call Account..	5				50	0	0
	Being amount remaining unpaid on the 100 shares forfeited as per previous entry							

A company has power to reissue forfeited shares at a price which will, together with the sum already received upon them, amount to 20s. in the £1.* Assuming that the shares forfeited as shown in the above illustration are reissued on July 20, 19.., at the price of 10s. per share, i.e. on payment of the calls outstanding on them, the necessary Journal entry is:—

JOURNAL

		L. F.	£	s	d.	£	s	d.
19... July 20	Sundries Dr.							
	Cash (New Shareholder)..		50	0	0			
	Forfeited Shares Account		50	0	0			
	To Preference Share Capital Account					100	0	0
	Being 100 7 % Preference Shares forfeited on July 5th and now reissued at the price of 10s per share, as per resolution of Directors, dated July 20, 19...		£100	0	0	£100	0	0

Or, as an alternative :—

JOURNAL.

		L. F.	£	s	d.	£	s.	d.
19 .. July 20	Forfeited Shares Reissued Account Dr	7	100	0	0			
	To Preference Share Capital Account .	1				100	0	0
	Being reissue of 100 7 % Preference Shares forfeited on July 5, 19. .							
,, 20	Sundries Dr.	C. B						
	Cash (New Shareholder)		50	0	0			
	Forfeited Shares Account .	3	50	0	0			
	To Forfeited Shares Reissued Account	7				100	0	0
	Being amount already received and cash on reissue of 100 7 % Preference Shares as above.							

* Unless the shares were issued under S. 47 (see p. 175), in which case the discount must be taken into account.

FORFEITED SHARES REISSUED (*continued*).

LEDGER.

1 PREFERENCE SHARE CAPITAL ACCOUNT. 1

Dr.			£	s.	d.				Cr. £	s.	d.
19.. July 5	To Forfeited Shares Account .	J.	100	0	0	19... July 5	By Balance .	√	100,000	0	0
" 20	" Balance carried down ..	√	100,000	0	0	" 20	" Forfeited Shares Reissued Account	J.	100	0	0
		£	100,100	0	0			£	100,100	0	0
						19.. July 20	By Balance brought down	√ £	100,000	0	0

3 FORFEITED SHARES ACCOUNT. 3

Dr.			£	s.	d.				Cr. £	s.	d.
19... July 5	To Call Account	J.	50	0	0	19... July 5	By Share Capital Account ..	J	100	0	0
" 20	" Forfeited Shares Reissued Account	J.	50	0	0						
			£100	0	0				£100	0	0

5 CALL ACCOUNT. 5

Dr.			£	s.	d.				Cr. £	s.	d.
19 July 5	To Balance ..	J.	50	0	0	19... July 5	By Forfeited Shares Account	J	50	0	0
			£50	0	0				£50	0	0

7 FORFEITED SHARES RE-ISSUED ACCOUNT. 7

Dr.			£	s.	d.				Cr. £	s.	d.
19.. July 20	To Preference Share Capital Account ..	J.	100	0	0	19.. July 20	By Forfeited Shares Account	J.	50	0	0
						" 20	" Cash	C B 8	50	0	0
			£100	0	0				£100	0	0

CASH BOOK.

Dr.			£	s.	d.				Cr. £	s.	d.
19... July 20	To Cash, proceeds Sale of 100 Preference Shares reissued	8	50	0	0						

STATUTORY REPORT.

The obligation to hold a statutory meeting, in accordance with S 113, was briefly explained in the previous chapter.

Every company limited by shares, and every company limited by guarantee and having a share capital, must, unless it is a private company, hold a meeting of its members not less than one month, or more than three months, from the date on which it is entitled to commence business This statutory meeting must therefore be held by every public company within three months of the date of the "certificate to commence business" If the directors fail to call this statutory meeting, any shareholder may, after fourteen days from the last day on which the meeting should have been held, apply to the Court for a winding-up order (S. 168, ss. 2, and S 170, ss. 1 (*b*)).

Private limited companies need not hold the statutory meeting, nor forward any report to their members, or file any report with the Registrar (S. 113, ss. 10). The directors of a public limited company, however, must at least seven clear days before the meeting forward to every member of the company a statement, in the prescribed form, known as the *Statutory Report*, and a copy of this report must be filed with the Registrar. The report must be certified by not less than two directors, or, where there are less than two directors, by the sole director and manager. The report must furnish information concerning (*a*) the total number of shares allotted, distinguishing shares allotted as fully or partly paid up otherwise than in cash, and stating in the case of shares partly paid up the extent to which they are so paid up, and in either case the consideration for which they were allotted; (*b*) the total amount of cash received by the company in respect of all the shares allotted, distinguished as in (*a*); (*c*) an abstract of the receipts of the company and of the payments made thereout, up to a date within seven days of the date of the report, exhibiting under distinctive headings the receipts of the company from shares and debentures and other sources, the payments made thereout and particulars concerning the balance remaining in hand, and an account or estimate of the preliminary expenses: (*d*) the names, addresses and descriptions of the directors, auditors, if any, managers, if any, and secretary of the company. (*e*) the particulars of any contract, the modification of which is to be submitted to the meeting for its approval, together with the particulars of the modification or proposed modification Under S. 36, no contract, particulars of which have appeared in the prospectus or statement in lieu of prospectus, may be varied without the approval of the statutory meeting.

The Statutory Report must be certified as correct by the auditors, if any, so far as it relates to the shares allotted by the company; and to the cash received in respect of such shares; and to the receipts and payments on capital account (S. 113, ss. 4).

A list of the names, descriptions, and addresses of the members of the company and the number of shares held by them respectively must be produced at the commencement of the meeting, and must remain open and accessible to any member of the company during the continuance of the meeting.

Full discussion may take place at the meeting of any matters

relating to the formation of the company, or arising out of the Statutory Report, but no resolution may be passed unless due notice has been given in accordance with the Articles of Association (S. 113, ss. 7).

The notice convening the meeting almost invariably accompanies the Statutory Report, although it may be sent separately, and at a different date, provided the notice given complies with the company's regulations, or, if there be no regulations, allows seven days' notice of the date of the meeting (S. 115, ss. 1 (a)). It may be noted that the Statutory Meeting is not an "Ordinary General Meeting" within the meaning of SS. 108–110. There is no necessity, therefore, to file any "Annual Return" after such meeting.

The business transacted at a statutory meeting is usually very brief. A formal but short statement is usually submitted by the chairman, giving particulars of the flotation and any events affecting the prospects of the company which may have happened since its incorporation.

Number of Certificate :—*365.*

(*Statutory Report.*)*

THE COMPANIES ACT, 1929.

A 5s. Companies' Registration Stamp must be impressed here

REPORT pursuant to S 113 of the Companies Act, 1929, of the *Soleil d'Or, Limited.*

(*a*) The total number of shares allotted is *50,000 Ordinary Shares of £1 each,* of which *10,000 shares* are allotted* *as fully paid up* in consideration of *part of the purchase price of sundry assets acquired by the Company,* and upon each of the remaining shares the sum of *£1* has been paid in cash.

(*b*) The total amount of cash received by the Company in respect of the shares issued wholly for cash is *£39,500,* and on the shares issued partly for cash is £ (*nil*)

(*c*) The Receipts and Payments of the Company to the date of this Report are as follows:—

Particulars of Receipts.	£	s.	d	Particulars of Payments.	£	s	d.
Amount received on 40,000 Ordinary Shares issued for Cash	*39,500*	*0*	*0*	*Payments to Vendors in respect of purchase of Land, Buildings and Machinery* ..	*25,000*	*0*	*0*
Trading receipts	*10,321*	*0*	*0*	*Preliminary Expenses*	*3,180*	*0*	*0*
				Trading payments	*9,670*	*0*	*0*
				Balance at Bank	*11,971*	*0*	*0*
	£49,821	*0*	*0*		*£49,821*	*0*	*0*

* This is not a form supplied officially—any form complying with S 113 is permissible A copy of the Report *as circulated to the members* must be filed

† Here state as "fully paid up" or "paid up otherwise than in cash to the extent of .... per share."

The following is an account (or estimate) of the Preliminary Expenses of the Company.

	£	s.	d.
Cost of registration of the Company, underwriting commission, law costs, brokerage, printing and advertising, etc., estimated at	*4,000*	*0*	*0*

(*d*) Names, Addresses and Descriptions of the Directors, Auditors (if any), Manager (if any), and Secretary of the Company.

Surname.	Christian Name	Address	Description.
		DIRECTORS.	
MacArthur	*George*	*16 Finsbury Circus, London, E.C.*	*Chartered Accountant*
Goodwin	*Arthur*	*Eastwood, Essex*	*Rose Grower*
Ducher	*Pernet*	*Lyons, Rhône, France*	*Horticulturist*
		AUDITORS.	
Accurate & Co.	—	*Salisbury House, London, E.C.*	*Chartered Accountants*
		MANAGER.	
Richmond	*Robert*	*Rochford, Essex*	*Rose Grower*
		SECRETARY.	
Dixon	*Hugh*	*Rochford, Essex*	*Chartered Secretary*

(*e*) Particulars of any Contract the modification of which is to be submitted to the Meeting for its approval, together with the particulars of the modification or proposed modification.

The contract set out in the prospectus, and dated July 5, 19.., whereby the services of Robert Richmond were to be secured to the Company for a period of ten years is to be submitted to the meeting with a view to the reduction of the term of years from ten to five.

WE hereby certify this Report.

George MacArthur } Two
Arthur Goodwin } Directors.

WE hereby certify that so much of this Report as relates to the shares allotted by the Company and to the Cash received in respect of such shares and to the receipts and payments of the Company on Capital Account is correct.

Accurate & Co.
Auditors

Dated the *10th* day of *October*, 19..

A Statutory Report in the customary form will be found at pp. 245–6. The items entered as "Particulars of Receipts" must distinguish between the actual cash received in respect of shares and debentures, or any other capital receipt, such as moneys received from the promoters in discharge of the preliminary expenses, and receipts from other sources. "Paper Transactions," such as fully-paid shares issued in purchase, or part purchase, of assets, are excluded, since the abstract deals only with cash.

If the capital offered has been over-subscribed, the total application moneys received should be set out as a receipt, and the amounts returned to unsuccessful applicants, as shown in the Application and Allotment Sheets, should appear as a separate item on the payments side of the statement.

Payments made to the vendors under the contract for purchase should be set out at the head of the payments, followed by any other capital expenditure made by the company since its incorporation. Other receipts and payments are included in total under the headings "Trading Receipts" and "Trading Payments." Particulars of the Balance remaining in Hand must be shown The information supplied in the Statutory Report will vary with the particular circumstances of each company For purposes of comparison with the form of Statutory Report already referred to, an actual report issued by an investment company is appended.

STATUTORY REPORT.

The Receipts and Payments of the Company to the date of this Report are as follows:—

RECEIPTS.	£	s.	d.	PAYMENTS.	£	s.	d.
Subscriptions for Shares .. .	99,769	7	6	Investments less Underwriting Commissions and Temporary Deposits, less Withdrawals	70,724	2	2
Income from Investments and Sundry Fees less Expenses .. .	1,944	5	9	Preliminary Expenses	10,000	0	0
Receipts from shares not allotted ..	50	0	0	Brokerage	1,771	2	3
				Moneys returned on shares not allotted	50	0	0
				Furniture, Fittings, Office Salaries, and General Expenses	1,420	9	7
				Balance at Bankers	17,797	19	3
	£101,763	13	3		£101,763	13	3

PRELIMINARY (FORMATION) EXPENSES

It will be remembered that an estimate of the preliminary expenses must be given in the prospectus, but no analysis of the expenses is required (see p. 123)

The items properly chargeable under this head include: The cost of registering the company, the stamp duty and fees on the nominal capital of the company, and the fees and stamp duties

on the documents and contracts filed at Somerset House; preparing, printing, advertising, and distributing the prospectus and the forms which accompany it, printing the Memorandum and Articles of Association; the cost of valuers' and accountants' certificates, brokers' fees, underwriting commission, and law charges; the cost of printing and stamping the various documents necessary in the early stages of the company, such as allotment letters, letters of regret, share certificates, debenture bonds, trust deed, call notices, etc.; the cost of the books of account, registers, statistical books, and the company's seal. In short, all the expenses up to allotment.

The proper party to bear all or part of the above expenses depends entirely upon the agreement with the promoter of the company. The allocation of the preliminary expenses as between the promoter and the company is a fruitful source of disagreement, particularly in cases where the flotation proves a failure. It is advisable, therefore, that express and definite agreement on the subject should be entered into prior to the registration of the company. In some cases all the expenses of registration and formation up to and including the issue of the prospectus or the allotment of the shares are borne by the promoter. When the expenses are borne entirely by the company, it is usual to contract for such items as the printing, issue, and advertising of the prospectus with firms who specialise in such work and possess address registers conveniently analysed into various classes of the investing public. From £2,000 to £5,000 is an average sum to spend in this direction in the case of a commercial issue of moderate amount. When there is a promoting syndicate, the whole of the preliminary expenses are usually borne by the syndicate.

All expenditure of the kind indicated should be debited to a separate ledger account headed "Preliminary Expenses" Inasmuch as the company could not have been brought into being without expenses of this nature, it will not be disputed that it is reasonable to treat it as capital expenditure for the time being. That this treatment is *intra vires* was recognised in *Bale* v. *Cleland*, 4 F. & F. 117, and in S. 124, ss. (1) (*a*), Companies Act, 1929, which requires the balance of the account of Preliminary Expenses to be stated under a separate heading in the Balance Sheet, until written off. In view of the intangible nature of the asset it is the practice to write off the account over a period of from three to five years, the balance of the account being maintained from year to year as an asset in the Balance Sheet. Contrary to statements sometimes advanced, it is suggested that it is not advisable to write off preliminary expenses against some capital reserve, such as premiums on shares. The periodical instalments charged to Profit and Loss Account under this heading are not allowed as deductions from the annual profits by the Income Tax authorities (*Texas Land and Mortgage Co.* v. *Holtham*, 63 L.J. Q.B. 496). The Inspectors, however, will allow the actual cost of such items as the company's books, preliminary stationery,

seal, etc. Railways, and some other parliamentary companies, permanently capitalise expenditure of this description.

It should be noted that (*a*) the expenses incurred in connection with the issue of share capital or debentures, and (*b*) any sums paid by way of commission in respect of any shares or debentures, must each be stated under a separate heading on the Balance Sheet to the extent to which they have not at that date been written off (S. 124, ss. (2) (*b*) and S 44, ss. (1)).

PROFITS PRIOR TO INCORPORATION.

When an existing business is purchased, the profits shown by the first accounts of the new company will, almost invariably, have been earned during two distinct periods, viz. (*a*) prior to the incorporation of the company, and (*b*) subsequent to the incorporation. The contract for the purchase of the business, as set out in the prospectus, specifies an agreed date on which the business is to be taken over as a going concern, together with the benefit of all its existing contracts. The date fixed is very frequently the date on which the last accounts of the business were prepared. From the nature of things, this date does not always coincide with the date when the company is incorporated. It will be clear, therefore, that the profit which has accrued between these two dates is of a capital nature, and is not divisible as income, since a company cannot earn profits before it legally exists, but takes over, as on the date of its coming into being, the assets representing those profits.

When the profits have been apportioned between these two periods, that portion which accrued prior to incorporation should be used to reduce the purchase price of the business, for it is obvious that the vendor will have compensated himself for the surrender of these profits when fixing the purchase price. In such circumstances the most suitable item to reduce is Goodwill, if any. Failing this, Land and Buildings should be credited with the amount available. If the circumstances are such that no asset can be suitably reduced, the profits prior to incorporation, which are "capital profits," may be taken to a Capital Reserve Account. But they should not be carried to a reserve account that has been created out of profits, or they may be subsequently employed for purposes for which capital profits are not properly available. It is sometimes suggested that these profits should be applied to eliminate such items as Preliminary Expenses. It is submitted that items of this nature should be written off against revenue, and not eliminated by using capital profits.

If the terms of the contract for sale provide that interest is to be paid to the vendor on the amount of the purchase money from the date of sale to the date of incorporation, such interest is a legitimate first charge against the profits accrued prior to incorporation.

The preparation of two sets of accounts, including an additional stocktaking at the date of incorporation, would, in the majority of cases, involve too much labour and inconvenience, therefore

the apportionment of the profits as between the two periods is usually based on an approximation, the application of which depends upon the circumstances and the nature of the business. In cases where the trade is evenly spread over twelve months of the year, an apportionment of the profits upon a time basis is reasonable but it would be unreasonable in cases where the turnover of the business varies greatly month by month. When the trade is a "season" trade, and practically confined to one period or intermittent periods of the year, the special circumstances must be taken into account, and in such cases, in the absence of an actual stocktaking, the possibility of arriving at an approximate stock figure will depend entirely upon the nature of the business and the accuracy and completeness of the stock records. A method sometimes adopted is to apportion the gross profit on the turnover for the whole period between the two periods, crediting each period with the proportion of the gross profit on the sales belonging to it. The gross profit so apportioned is debited with the charges detailed in the Profit and Loss Account, properly apportioned on a turnover basis in so far as the expenses vary with turnover, other expenses which do not so vary being apportioned on a time basis, or as they were actually incurred during the two periods, if such treatment is fair and reasonable. The following illustration will explain this method.

Illustration.—The L C. Chaure Co., Ltd., was incorporated on March 31, 19.., and took over the business of Albert Goodwin as from the preceding January 1, 19... At the close of the year the accounts disclosed the following results :—

	£
Gross profit for the year	20,000
Sundry Profit and Loss Charges and Expenses	5,000
Managing-Director's Salary, Directors' Fees, and other charges applicable to the limited company only ..	800
Sales for the year	200,000
Sales, January 1st to March 31st	40,000
Sales, April 1st to December 31st	160,000
Net profit for the year	14,200

The percentage of gross profit remained unchanged throughout the year.

For the period January 1st to March 31st the proportion of Gross Profit $= \frac{40,000}{200,000}$ of £20,000 = £4,000.

For the period April 1st to December 31st the proportion of Gross Profit $= \frac{160,000}{200,000}$ of £20,000 = £16,000.

The apportionment for the periods will then be :—

MARCH 31ST TO DECEMBER 31ST.

	£	s	d.		£	s	d
To Proportion of Profit and Loss Expenses	3,750	0	0	By Share of Gross Profit ..	16,000	0	0
„ Expenses wholly applicable to the Company	800	0	0				
„ Balance being Profit divisible as dividend . ..	11,450	0	0				
	£16,000	0	0		£16,000	0	0

The net profit for the year being £14,200, and the proportion applicable to the limited company £11,450, it follows that the capital profit accrued prior to incorporation is £2,750, which would be taken in reduction of some suitable asset, as explained above.

Another, but not very scientific, method is to take the sales for the whole period and the two separate periods, and apportion the net profits in the ratio thus obtained.

Illustration.—The Willowmere Co., Ltd., was incorporated on March 31, 19.., to take over an existing business as from January 1st in the same year The turnover for the whole year to December 31st was £50,000; the sales to March 31st were £10,000, the sales, April 1st to December 31st, were £40,000; and the net profit for the year was £8,000.

The apportionment is as follows· 10,000 ÷ 50,000 of £8,000, or £1,600 = Capital Profit; 40,000 ÷ 50,000 of £8,000, or £6,400 = Profit available for distribution.

Loss Prior to Incorporation—If the purchasing company should be so unfortunate as to experience a loss on the trading prior to incorporation, the effect of the loss is to increase the purchase price of the business The amount of the loss is either taken to a special suspense account, or it is added to the purchase price of the business. If the latter account has been split up into its component parts, Goodwill is the most suitable account to which to transfer the loss

PURCHASE OF A BUSINESS.

The last few illustrations have assumed the purchase of a business by a limited company. As this is a frequent reason for forming a company, it will be useful to consider briefly the book-keeping entries involved in transactions of the kind

The first step is the settlement of the contract between the vendors of the going concern which it is proposed to acquire and the promoter, or promoting syndicate. The formation of a small promoting syndicate to carry through the formation of a company is, nowadays, a popular method. The purchase price will consist usually of cash, and paper in the form of debentures and/or fully-paid shares. The larger the proportion of shares taken by the vendor the greater will be the public confidence. It is advisable that the contract should specify what portion of the purchase price is represented by goodwill. In the majority of cases, however, a round sum is agreed which embraces all the assets, including goodwill. It is clear that if the purchase price is greater than the value of the assets (excluding goodwill) minus the liabilities, the difference will represent goodwill

The contract of purchase usually provides that the liabilities of the old business shall be discharged by the purchasers, and a guarantee is given by the vendors that the total liability does not exceed the total of the creditors' accounts in the books It is also usual for the vendor to guarantee the book debts. When such guarantees exist, careful watch must be kept by the book-keeper upon the liabilities and book debts taken over in order that any necessary adjustments may be made. The best way, perhaps, to do this is to add another column to the receipt side

of the Cash Book, so that all receipts can be divided as between the old and the new proprietors. A memorandum account headed *Sundry Debtors Realisation Account* should be opened in the Ledger to which the cash received from the old debtors is periodically posted in totals. The total amount of the book debts, or the amount they have been guaranteed to realise, will form the debit

Illustration.—Leslie Holland & Co., Ltd , was formed to take over the business of L. Holland as a going concern as on January 1, 19 .. The purchasers were to pay all the outstanding liabilities of the old business. The purchase price was agreed at £150,000, payable as to £50,000 in fully-paid Ordinary Shares of £1 each, £50,000 in fully-paid 6 % Preference shares of £1 each, and £50,000 in cash on the date of taking over the business. The Balance Sheet of the old firm was as set out below.

L. HOLLAND'S BALANCE SHEET, JANUARY 1, 19...

LIABILITIES.	£	s	d	ASSETS.	£	s	d
Capital ..	140,000	0	0	Freehold Land and Works ..	50,000	0	0
Sundry Creditors	32,000	0	0	Machinery and Plant	45,000	0	0
Bills Payable	4,000	0	0	Patents	1,000	0	0
				Stock in hand ..	37,000	0	0
				Sundry Debtors	35,000	0	0
				Bills Receivable	5,000	0	0
				Cash	3,000	0	0
	£176,000	0	0		£176,000	0	0

PURCHASE OF BUSINESS.

(THE COMPANY'S BOOKS.)

LEDGER.

L. HOLLAND (VENDOR'S) ACCOUNT.

DR.			£	s.	d.				£	s.	d. CR.
19... Jan. 1	To Fully Paid Ordinary Share Capital Account ..		50,000	0	0	19 Jan 1	By Purchase of Business Account		150,000	0	0
	„ Fully Paid Preference Share Capital Account .		50,000	0	0						
	„ Cash		50,000	0	0						
		£	150,000	0	0			£	150,000	0	0

GOODWILL ACCOUNT

DR.			£	s.	d.				£	s.	d. CR.
19... Jan. 1	To Transfer from Purchase of Business Account ..		10,000	0	0						

PURCHASE OF BUSINESS ACCOUNT.

DR.			£	s	d				£	s.	d. CR.
19... Jan. 1	To Sundry Liabilities ..		36,000	0	0	19. Jan 1	By Sundry Assets		176,000	0	0
	„ Vendor ..		150,000	0	0		„ Goodwill Account ..		10,000	0	0
		£	186,000	0	0			£	186,000	0	0

Dr SUNDRY ASSETS ACCOUNT.* Cr

			£	s	d				£	s.	d.
19.. Jan 1	To Purchase of Business Account ..		176,000	0	0						

Dr SUNDRY LIABILITIES * Cr

			£	s	d				£	s	d
						19 Jan 1	By Purchase of Business Account .. .		36,000	0	0

* In practice each asset and liability would be represented by a separate account.

Dr FULLY-PAID ORDINARY SHARE CAPITAL ACCOUNT. Cr.

			£	s	d.				£	s	d
						19 Jan 1	By Vendor ..		50,000	0	0

Dr. FULLY-PAID 6 % PREFERENCE SHARE CAPITAL ACCOUNT Cr.

			£	s.	d				£	s	d
						19 .. Jan. 1	By Vendor ..		50,000	0	0

JOURNAL.

		L F.	£	s	d	£	s.	d.
19. Jan 1	Sundry Assets— Dr							
	Freehold Land and Works .		50,000	0	0			
	Machinery and Plant .. .		45,000	0	0			
	Patents		1,000	0	0			
	Stock in hand		37,000	0	0			
	Sundry Debtors		35,000	0	0			
	Bills Receivable .. .		5,000	0	0			
	Cash		3,000	0	0			
	To Purchase of Business Account					176,000	0	0
	For sundry assets taken over by the Company as per contract for purchase, dated December 31, 19. .							
,, 1	Purchase of Business Account Dr		36,000	0	0			
	To Sundry Liabilities—							
	Sundry Creditors .					32,000	0	0
	Bills Payable					4,000	0	0
	For sundry liabilities taken over by the Company as per contract for purchase, dated December 31, 19							
,, 1	Purchase of Business Account .. Dr.		150,000	0	0			
	To Vendor .					150,000	0	0
	For purchase price of business as per contract for purchase, dated December 31, 19. .							
,, 1	Vendor . . . . Dr		100,000	0	0			
	To Sundries—							
	Ordinary Share Capital Account .					50,000	0	0
	Preference Share Capital Account					50,000	0	0
	Being the allotment of 50,000 Ordinary Shares and 50,000 6 % Preference Shares of £1 each, fully paid, to the vendor in part payment of purchase price as per contract for purchase							
,, 1	Goodwill Account . . . .. Dr		10,000	0	0			
	To Purchase of Business Account					10,000	0	0
	For Goodwill transferred							

CASH BOOK.

(CREDIT SIDE.)

DR.			£	s.	d.				£	s.	d. CR
						19 . Jan 1	By Vendor Balance of purchase money paid to vendor as per contract		50,000	0	0

side of the account. In due course the balance of this account, if a debit balance, will show the amount due from the vendors: if a credit balance results, it should be carried to the Reserve Account The old liabilities assumed by the company can be similarly treated.

It has not been considered necessary to open individual Ledger accounts for the various assets and liabilities taken over: they have therefore been treated in total. It will be noted that the price paid for the business was £10,000 in excess of the assets minus the liabilities, hence the transfer of £10,000 to a Goodwill Account.

DIVIDENDS

The great majority of companies frame special Articles governing the payment of dividends. Failing such special Articles, *Table A, Arts.* 89 *to* 96, provide the regulations, unless the Company's own Articles bar those regulations The chief points covered by these Articles are:—

(1) Dividends are to be declared in general meeting, and no dividend is to be declared which exceeds the amount recommended by the directors.
(2) The directors may pay interim dividends
(3) No dividends may be paid except out of profits.
(4) Dividends shall only be paid on the amounts paid up on the shares
(5) Calls paid in advance shall not carry dividend rights if carrying interest
(6) Before declaring a dividend, the directors have power to make such reserves as they may think proper

When profits have been earned, and when, together with any sum which may have been brought forward from the previous trading period, they are large enough to justify the payment of a dividend, the directors, in their report, recommend the payment of dividends at specified rates to the shareholders. A duly declared dividend is a liability of the company, but it carries no interest. In the event of liquidation, the payment of any dividends remaining unpaid at the date of the winding-up is postponed in favour of the claims of ordinary creditors, since unpaid dividends are membership debts.

It has already been remarked that such matters as the reserves which must be made out of profits, the dividend rights of the various classes of shareholders, and the manner of distributing dividends are usually provided for by the Articles of Association. The Articles, as in Table A, usually direct that dividends shall only be paid in proportion to the amounts paid up on the shares.

If they do not, dividends are payable in proportion to the nominal holding of each shareholder, irrespective of the amount paid up. This is the case with companies governed by the Table A of the 1862 Act (see Clause 72), i.e. companies registered prior to October 1, 1906, without special Articles. The 1908 and 1929 versions of Table A, however, provide for the dividend being payable according to the amount paid up on the shares (see also S. 48, ss. 3). In the majority of cases, when the prior rights of the preference shares have been satisfied, the balance of divisible profits belongs to the holders of the ordinary shares, unless deferred ordinary shares or founders' shares exist. When shares of this nature have been issued, the division of the available profits amongst them will be provided for in the Articles of Association.

Dividends Paid out of Capital.—The student is aware that it is not legal to pay dividends out of capital. Apart from the fact that this is a fundamental principle of company law, a special proviso to this effect is often included in the Articles. Directors paying such dividends, unless misled by officials they were entitled to trust, are liable to refund the amount so distributed (see, for instance, *In re London and General Bank*, [1895] 2 Ch. 673).

Arrears of Preference Dividend.—It has already been stated that the majority of preference shares carry cumulative rights as to dividends. That is to say, if the profits are insufficient in any year to pay the dividend, the liability accumulates from one year to another and, until all arrears have been paid, the ordinary shares are not entitled to any dividend. It is not necessary to carry forward the whole of a liability of this kind in the event of the profits being insufficient to discharge it in full. A smaller dividend than the fixed rate can be paid on account and the balance carried forward. A liability in respect to preference dividends is not one which can be passed into the books. It is a liability contingent upon sufficient profits being earned out of which to discharge it, and until such profits are available, *and* the dividend has been formally declared, no actual debt exists. Under some Articles dividends do not become payable until sanctioned by a resolution of the directors, but, in most cases, a resolution of the members is required except for interim dividends. It may be urged, therefore, that it is not necessary even to note the arrears. The absence of such a reminder, however, may prejudice creditors and prospective members, and it is suggested, in all cases where arrears exist, that a note should appear on the face of the Balance Sheet against the preference share capital stating that "arrears of dividend amounting to £ : · exist upon this capital," or words to that effect.

The fact that preference dividends are in arrear sometimes provokes hostile criticism of the provisions and reserves appearing in the accounts of the company. It should, however, be borne in mind that the directors are responsible for the interests of all classes of members and for the proper financial conduct of the company, and even if the Articles give the directors no specific powers to reserve profits, the Courts would probably allow them

ample discretion in making such provisions and reserves as they might deem advisable, even at the expense of outstanding preference dividends (*Bond* v. *Barrow Hæmatite Steel Co*, [1902] 1 Ch. 358).

It is necessary for the directors when issuing their report to the members, in cases where surplus profits are available, to show in detail how they propose to deal with the surplus (S 123).

ILLUSTRATION.

The Profit for the year, after making provision for Debenture Interest, Depreciation, etc., as shown by the annexed accounts, amounts to				£ *52,000*	s. *0*	d. *0*
To which has to be added the amount brought forward from last year				*12,000*	*0*	*0*
				£ 64,000	*0*	*0*
From this must be deducted:—						
Amount transferred to Reserve	*£10,000*	*0*	*0*			
Leasehold Redemption Fund	*5,000*	*0*	*0*			
Dividend on Preference Shares for the half year to June 30th	*5,000*	*0*	*0*			
Interim dividend on the Ordinary Shares	*5,000*	*0*	*0*			
				25,000	*0*	*0*
Leaving an available balance of				*£39,000*	*0*	*0*
The Directors recommend the payment of—						
Balance of the Preference Dividend due December 31st last	*5,000*	*0*	*0*			
A dividend of 15 % on the Ordinary Shares, free of Income Tax, making 20 % for the year	*15,000*	*0*	*0*			
				20,000	*0*	*0*
Leaving to be carried forward to next year				*£19,000*	*0*	*0*

Warrants for the above dividends, if approved by the meeting, will be posted on March 3rd next.

Occasionally accounts are issued to members in which *proposed* dividends are debited to the appropriation account. This treatment is quite inaccurate. The dividend has yet to be passed by the members, and until it is approved and actually declared it does not become a financial transaction capable of record in the books and accounts. A dividend is not a debt until duly declared (*In re Severn and Wye Railway Co.*, [1896] 1 Ch 559) Being a specialty debt, a duly declared dividend is not barred under the Statute of Limitations until twenty years have elapsed (*Artisans' Land and Mortgage Corporation*, [1904] 1 Ch. 796).

It is the author's experience that some examination candidates, when preparing the accounts of a limited company showing profits, take upon themselves to declare and deduct an imaginary dividend, which they charge in the appropriation section of the Profit and Loss Account. It should not be necessary to state that such a proceeding is not in any way required by the terms of the question and, as stated above, is, moreover, an inaccurate entry.

Interim Dividends.—Art. 90 of Table A empowers directors to pay interim dividends at their discretion, and Articles of Association usually confer the same powers. All dividends, other than

interim dividends, must be sanctioned by the members in general meeting. Interim dividends are usually declared after the close of the company's financial half year, and when paid should be posted to an "Interim Dividend Account."

Considerable responsibility frequently attaches to the company accountant when deciding whether payment of an interim dividend is justified. Interim accounts should be prepared, in which all the usual provisions have been made, and, even if the surplus shown is considerable, the distribution should be at a conservative rate. It would certainly operate to the detriment of the company if, owing to adverse circumstances during the remainder of the year, the declaration of a final dividend at a lower rate becomes necessary.

When, in due course, the annual meeting is held, and the Report and Accounts have been adopted, the chairman will propose a resolution, seconded by another director, "that a dividend of .... % per annum be and is hereby declared"

The amount of the dividend proposed by the directors may be reduced by the shareholders if they think it advisable, but the Articles almost invariably provide that no increase of dividend may be proposed.

If the dividend is duly passed, entries will be made as follows:—

JOURNAL.

		L F.	£	s.	d.	£	s.	d
	Profit and Loss Account (Appropriation Section) Dr To Dividend Account . . . . Being amount of dividend at 5 % on 100,000 Ordinary Shares as per Shareholders' resolution, July 30, 19 .							
	Dividend Account Dr To Income Tax Account . . . . Being Tax at . in the £ upon the dividends payable to the Ordinary Shareholders as above							

If the dividend is paid "free of tax," the second of the above entries will not be necessary.

Similar entries will be made in respect of each class of dividend paid.

An amount representing the net sum needed for the service of the dividend should be paid into a separate Dividend Account at the bank, and all *dividend warrants* should be debited to this account by the bankers when presented. In due course, when the dividend has been paid, the total payments will be debited to the Dividend Account from the Cash Book. If any balance remains on the account, it will represent unclaimed dividends. If a special banking account is kept for unclaimed dividends, the balance of each dividend account should be transferred to it after the lapse of, say, three months. If no such account is kept, the dividend account should be closed by transferring the balance to the general account. At the same time, the Dividend Account in the Ledger will be closed by transferring the balance to "Unclaimed Dividends

Account." A separate banking account is sometimes opened for each class of dividend. Similar procedure will be followed in respect of the periodical payment of interest on debentures.

Income Tax.—It is clear that companies *must*, unless the terms of issue otherwise provide, deduct income tax when paying debenture interest or preference or guaranteed dividends at fixed rates, otherwise the preferential rate of dividend, or interest, would be exceeded to the detriment of the ordinary shareholders, e.g. a $7\frac{3}{4}$ % preference dividend paid "free of tax" would, at the rate of 4s. 6d. in the £1, be, in effect, the payment of a dividend of 10 %. In the case of ordinary or deferred shares, a company may elect to pay the tax on the whole dividend or deduct it from each

Illustration.—The South-Western Distribution Company, Ltd., had, as on December 31, 19.., a balance of undivided profits amounting to £10,500. The Company resolved on the following February 4th:—(*a*) To place £1,000 to Reserve, raising it to £5,000; (*b*) to pay a full dividend for the previous year on its £80,000 5 % Preference Stock, less tax; and (*c*) to pay a dividend of 5 %, free of tax, on its £80,000 Ordinary Stock. The balance of profit was to be carried forward to the following year Show the entries in the Company's books relating to these transactions, assuming the rate of Income Tax to be 4s. 6d. in the pound.

PROFIT AND LOSS ACCOUNT.

(APPROPRIATION SECTION)

DR. CR.

			£	s	d				£	s	d
19.. Feb 4	To Transfer to Reserve Account ..	J	1,000	0	0	19.. Jan 1	By Balance brought forward .. .	√	10,500	0	0
" 4	" Transfer to Preference Share Dividend Account .	J	4,000	0	0						
" 4	" Transfer to Ordinary Share Dividend Account . ..	J	4,000	0	0						
" 4	" Balance, being undivided Profit carried forward	√	1,500	0	0			√			
			£10,500	0	0				£10,500	0	0
						19.. Feb. 4	By Balance brought forward .. .	√	1,500	0	0

RESERVE ACCOUNT.

DR CR.

			£	s	d				£	s.	d.
19.. Feb. 4	To Balance carried forward	√	5,000	0	0	19.. Jan 1	By Balance brought forward .	√	4,000	0	0
						Feb 4	" Transfer from Profit and loss Account ..	J.	1,000	0	0
			£5,000	0	0				£5,000	0	0
						19... Feb. 4	By Balance brought forward . ..	√	5,000	0	0

PREFERENCE SHARE DIVIDEND ACCOUNT.

Dr.			£	s	d.		Cr.		£	s	d.
19.. Feb 4	To Transfer to Income Tax Account for Income Tax deducted at 4s. 6d. per £ from Dividends paid .	J	900	0	0	19.. Feb 4	By Transfer from Profit and Loss Account .. .	J	4,000	0	0
" 4	" Cash, for total of Dividend Warrants sent to Shareholders ..	C.B	3,100	0	0						
			£4,000	0	0				£4,000	0	0

ORDINARY SHARE DIVIDEND ACCOUNT.

Dr			£	s	d		Cr		£	s	d.
19.. Feb. 4	To Cash, for total of Dividend Warrants sent to Shareholders	C B	4,000	0	0	19.. Feb 4	By Transfer from Profit and Loss Account .	J.	4,000	0	0

INCOME TAX ACCOUNT.*

Dr			£	s.	d		Cr.		£	s	d
						19.. Feb 4	By Transfer from Preference Share Dividend Account ..	J.	900	0	0

* The credit entry in this Account will reduce the total debit for Income Tax paid to the Inland Revenue authorities when the Company's liability has been assessed

individual dividend as it pleases. In the former event the dividend is said to be paid "free of tax," but the expression, although in common use, is not a happy one, since no dividend is free from the obligation of Income Tax. The effect of the payment of a dividend *gross* is simply to increase the rate of the dividend by the amount of the current Income Tax.

In the great majority of cases, the transfer registers of companies are "closed" for fourteen days at the period of the annual meeting, in order that proper dividend lists may be prepared. Any transfers which may come in during the period when the books are closed are held over until the register is reopened. The person registered as the holder of the shares on the date when the list is closed is the only person recognised by the company as being entitled to the dividend payable on the shares All questions arising out of the sale of the shares *cum div.* or *ex div.*, as the case may be, must be settled between buyer and seller, the company having no concern in the matter.

The necessary particulars for the *Dividend Sheets* or *Dividend Book* will be obtained from the Register of Members.

RAYON D'OR, LIMITED.

DIVIDEND SHEET.

(ORDINARY SHARES.)

Dividend at . . % per annum payable on the 15th day of March, 19. ., in respect of the year ended December 31, 19. . .

Folio Share Register.	No of Dividend Warrant	Payees.		Payee's Holding.	Dividend @ . %.			Income Tax Deducted at . in the £			Net Amount of Warrant.			Date Cleared at Bank.	Remarks.
		Name.	Address.												
					£	s	d	£	s.	d	£	s.	d		When directions are received to pay dividends to shareholders' Bankers, notes are made here of the Banks in question Sometimes a special column is employed for this purpose.

NOTE.—Separate Dividend Sheets should be employed for each class of share in respect of which dividends are paid. When complete, the loose sheets should be bound in book form.

Balancing the Share Register.—When the dividend sheets are compiled it is necessary to balance the Share Ledger. In the case of a small company, this is not difficult, but where a large number of dealings take place in the shares of a company, scrupulous care is required to ensure that the shares registered in the names of holders, as they appear in the dividend list, shall agree with the total issued capital of the company. The best way to secure this agreement is to check systematically all transfer entries and to take out a "trial balance." The "folio" and "balance of shares" held by each member only are taken out. The total share capital issued is the figure with which the sum of the balances of the members' accounts must agree. If the entries in the Share or Stock Ledgers are very numerous, it is useful to employ some form of sectional balancing for the purpose of locating errors and securing such a general check on the share registration work as will prevent manipulation and fraud.

A specimen ruling of a Dividend Sheet is given at p. 260.

Sometimes Dividend Books are employed, but a company with a large number of shareholders more conveniently employs a list, consisting of separate sheets, because then the work is divisible amongst a greater number of clerks. By summing the various columns of these sheets an easy check on the correctness of the entries and calculations is obtained. The total of the "Payee's Holding" column should give the total of the issued share capital on which the dividend is payable, and the amount of the dividend upon this total, less tax, should, of course, agree with the additions of the figures contained in the "Dividend," "Income Tax," and "Amount of Warrant" columns. In large companies, it is customary to check and initial each sheet. When the dividend warrants have been made out they are called over with the dividend sheets to ensure correctness.

Where three or more share registers are employed, the difficulty of balancing the registers and agreeing the schedules of shares extracted from them with the dividend lists is naturally increased. It is then customary to adapt the self-balancing principle to the share registers. For this purpose a *Transfer Postings Journal* is employed. A suitable ruling for this book is as under:—

TRANSFER POSTINGS JOURNAL.

Shares Transferred.	Transferees				Transferors.			
	Registers.				Registers			
	No 1.	No 2.	No 3.	No. 4	No 1.	No. 2	No 3.	No 4.
100		100					100	
75			75					75
50	50						50	
225	50	100	75				150	75

The functions of this book are precisely similar to those of a tabular journal forming part of a commercial system of self-balancing books.

Example.—Assume that the capital of the company consists of 200,000 Ordinary Shares of £1 each. The accounts containing particulars of the holdings at the date of allotment were recorded in four registers as follows:—

	Shares
No. 1 Register	56,000
No. 2 Register	44,000
No 3 Register	85,000
No. 4 Register	15,000
	200,000

These figures give us the starting-point for the adjustment account, which will be completed by adding, or subtracting, the totals provided by the Transfer Postings Journal, as follows:—

ORDINARY SHARES ADJUSTMENT ACCOUNT.

	Registers.				Totals.
	No 1.	No 2.	No. 3.	No 4	
Allotments	56,000	44,000	85,000	15,000	200,000
Add Transferees' Postings	50	100	75		225
	56,050	44,100	85,075	15,000	200,225
Deduct Transferors' Postings			150	75	225
	56,050	44,100	84,925	14,925	200,000

The adjustment account, prepared as described above, will then be compared with the balances extracted from the four registers for the purpose of the dividend sheets, and any mistakes will be located in the register, or registers, in which they occur.

If the registers are not too numerous, the above Transfer Postings Journal can be transformed into a tabular adjustment account ledger by carrying forward the totals of the separate registers at the head of the various "transferees" columns. "Transferors" could be treated as debits and "Transferees" as credits, and the balance of any given share register, at the required date, would be the difference between the debit and credit columns representing that Ledger

Labour-saving devices can usefully be employed when the preparation of dividend lists involves heavy work An *Adding Machine* can now be obtained which will type, and simultaneously add up, several columns of pounds, shillings, and pence. Extra keys can be provided to print a distinctive number against each entry. Machines of this type can be adapted for the preparation of dividend lists as well as for the extraction of the balances of stock and share ledgers. *Addressing* machines are also frequently employed to lighten the labour of preparing and despatching dividend warrants. These machines print the names and address

(Dividend Warrant.)

RAYON D'OR, LIMITED.

DIVIDEND ON THE ORDINARY SHARES FOR THE YEAR ENDED DECEMBER 31, 19...

3

It is essential that this portion should be retained by the Proprietor if a claim to allowance or relief from Income Tax is contemplated In the event of a duplicate of this statement being required a fee of 1s will be charged.

No. *32*.

962 FINSBURY CIRCUS,
LONDON, E.C.
March 3, 19...

SIR (or MADAM),

I am instructed by the Directors to hand you Warrant for a Dividend of 20 % per annum on the Shares registered in your name, viz. :—

	£	s.	d.
Dividend at 20 % on *100* Shares	—	—	—
Less Income Tax at in the £1	—	—	—
Amount of cheque herewith	£—	—	—

I hereby certify that the Income Tax on the profits of the Company, of which profits this dividend forms a portion, has been or will be duly paid to the proper Officer for the receipt of Taxes. The warrant requires your signature at foot.

Please do not fail to give timely notice of any change in your address.

Yours truly,
WALTER ROBERTSON,
Secretary.

L. C. Cropper, Esq.,
South Place,
London, E.C.

(Perforation)

RAYON D'OR, LIMITED.

& Co.

3

DIVIDEND ACCOUNT

No *32*

March 3, 19...

STAMP

To the NATIONAL PROVINCIAL BANK, LIMITED,
PRINCES STREET, LONDON, E C.

Pay to *L. C. Cropper, Esq.*, or order, the sum of......................
....

For and on behalf of RAYON D'OR, LIMITED.

£— — —.

Arthur R. Goodwin, Director.
Walter Robertson, Secretary.

Signature of Payee..................

(If this Warrant is not presented within three months, it must be returned to the Company for verification.)

of the stockholder (1) on the counterfoil, (2) in the body of the warrant, and (3) on the envelope.

Forms of Dividends and Interest Warrants.—Forms of dividend and interest warrants will be found at pp 263–5.

In cases where several classes of debentures and/or shares have been issued by a company the counterpart of the warrant frequently takes similar form to the understated.

(Dividend Warrant.)

(Counterpart of Warrant only.)

RAYON D'OR, LIMITED. **9**

No. *159.*

962 Finsbury Circus,
London, E.C.
December 31, 19..

This portion of the sheet must be retained by you if you contemplate claiming an abatement or return of Income Tax.

To *L. C. Cropper, Esq.,*
Spencer House, South Place, E.C.

I have pleasure in handing you herewith Warrant for Interest and/or Dividend for the half year ended December 31, 19.., on the Stock and/or Shares of which you are the registered holder as specified hereunder :—

Holding	Class of Holding	Interest and/or Dividend.		
		£	s	d
£1,000	4 % "A" Mortgage Debenture Stock ..	—	—	—
£	4½ % "B" Mortgage Debenture Stock			
£1,000	5 % "Freehold" First Debenture Stock	—	—	—
£	6 % First Cumulative Preference Shares			
£500	5 % Second Cumulative Preference Shares	—	—	—
	Total	—	—	—
	Less Income Tax at .. .. in the £	—	—	—
	Amount payable	£—	—	—

I hereby certify that the sum set forth as deducted from Interest for Income Tax, and that Income Tax on the profits of the Company, of which profits the above dividend forms a part, has been or will be paid to the proper officer for the receipt of taxes, and this certificate may be used by proprietors as evidence that the tax has been so paid.

Proprietors are requested to be good enough to give timely notice of any change of address, in order that future Warrants may not be mis-sent.

Proprietors who have banking accounts are recommended to authorise the payment of amounts due to them direct to their credit at their bankers.

Yours truly,
Walton Robertson,
Secretary.

(Perforation)

(Here is attached the cheque in similar form to that already given)

(Interest Warrant)

NORTH AND SOUTH RAILWAY COMPANY.

FIRST MORTGAGE 4½ % DEBENTURE STOCK.

INTEREST WARRANT. **3**

No. ....

SALISBURY HOUSE,
LONDON, E.C.
January 15, 19...

Annexed please find Warrant for the Half-year's Interest due this day, upon your holding in the above

Interest at 4½ per cent. per annum for the half-year to January 15, 19 ., on £... . Stock	£	:	:
Less Income Tax at .. .. .. in the £1	£	:	:
	£	:	:

JOHN ROHAN & Co. (*Registrars*).
Exd. ....

NOTE.—We hereby certify that the amount stated hereon has been deducted for Income Tax, and has been or will be accounted for to the proper officer for the receipt of taxes. This counterfoil should be carefully preserved in the event of a claim being contemplated for abatement or return of Income Tax. *No duplicate can be issued.*

.... (Perforation) ....

NORTH AND SOUTH RAILWAY COMPANY. **3**

FIRST MORTGAGE 4½ % DEBENTURE STOCK.

INTEREST WARRANT FOR THE HALF YEAR, DUE JANUARY 15, 19...

Stamp.

& Co.
A/c Payee

No. ..../....

LONDON, *January* 15, 19...

To Messrs. JOHN ROHAN & Co.
SALISBURY HOUSE, LONDON, E.C.

Pay or Order,

the sum of.....................Pounds, ...shillings and..............pence.

£ : : . *p.p.* JOHN ROHAN & Co. (*Registrars*).

Signature of Payee ....

This latter form of warrant is suitable for use with an addressing machine, as explained at p. 262.

The upper portion of the document is retained by the payee, whilst the attached warrant is paid into the bank for collection. The detached portion should be retained for production, in case of need, for Income Tax purposes, in order to satisfy the Inspector that tax has been duly paid. When the taxpayer is entitled to any allowance, or to a refund on other grounds, it will be necessary to produce the counterparts of all dividend warrants in support of the claim. Most companies keep special certificate forms in blank, and will supply shareholders with duplicate counterparts of warrants in case of need

Share Warrants to Bearer.—If share warrants to bearer have been issued, due notice of the intention to pay a dividend is advertised in the public Press. The payment of dividends is usually provided for by means of sheets of coupons, as explained in connection with the issue of bearer debentures; but if no coupons have been issued it is necessary for the holder of a share warrant to deposit his warrant at the office of the company, together with a form duly filled in with particulars of name, address, number, and distinctive number of shares held, etc. After verification, a cheque for the dividend less tax is handed to him, and his share warrant is returned in exchange for the formal receipt issued to him when he deposited it.

Payment Direct to Banker.—It is a growing practice for shareholders to instruct companies whose shares they hold to pay their dividends direct to their bankers. Before they will do this, most companies require their own special printed instruction forms to be filled in, authorising them to pay dividends, until further notice, to the shareholder's bankers, and to accept the banker's receipt as a full and sufficient discharge. A note should be made in the Share Register of the receipt of such a notice, preferably in coloured ink. Particulars of the destination of dividend warrants should be included in the note. Such warrants are made payable as follows: "*The Midland Bank, Ltd., for account of R. Richmond.*" When the paid warrants are returned from the bank, they should be pasted to their respective counterfoils in the dividend cheque books, and the date of clearance noted with a distinctive mark in the dividend sheets

Lost and "Stale" Warrants.—If a dividend warrant should be lost, a duplicate will be issued upon the signing of a satisfactory form of indemnity (stamp, sixpence), the payment of the original having been previously "stopped" at the company's bank. Apart from this the shareholder has no remedy against the company except upon the lost dividend warrant; for the posting of the warrant constitutes payment by the company (*Thairlwall* v. *Great Northern Railway Co.*, [1910] 2 K.B. 509).

The majority of dividend warrants bear a note to the effect that if not presented within three months of date they will not be paid by the bank, but after verification of a "stale" warrant by the company ("*Please pay.*" *Walton Robertson, Secretary*) it

may be re-presented. Although a warrant is to all intents and purposes a cheque (it must bear a 2d. stamp, adhesive or impressed), some bankers distinguish between the two documents, and will, unless the warrant bears contrary instructions, pay dividend warrants six months after date, whereas an ordinary cheque would be referred back for verification at an earlier date.

Bonus Shares.—Occasionally, for financial reasons, companies whose articles permit, pay a dividend to their shareholders in the form of additional fully paid shares instead of cash. In such cases, the profits earned are applied in paying up, either in part or in full, the amount due on the shares thus issued. The necessary book-keeping entries are made on lines identical with those set forth above, except that the Share Capital Account (and the Premium on Shares Account, if the shares are issued at a premium) is credited in place of the Cash Account.

Illustration.—The Lough Neagh Steam Navigation Co., Ltd., with an authorised capital of £150,000, and an issued capital of £100,000 in £1 shares (the current market price of which is 2¾), decides on January 9, 19.., to pay a dividend to its shareholders, in the form of one £1 share, taken at a price of £2, for every fifty £1 shares held. The balance of profits available prior to this transaction amounted to £8,000. Show these transactions in the Company's Ledger.

DIVIDEND ACCOUNT.

Dr. Cr.

			£	s.	d.				£	s.	d.
19 . Jan. 9	To Transfer to Share Capital Account (2,000 Shares of £1 each)	J.	2,000	0	0	19 . Jan. 9	By Transfer from Profit and Loss Account	J.	4,000	0	0
" 9	" Transfer to Premium on Shares Account (for Premium of £1 per Share on 2,000 Shares of £1 each, issued @ £2 per Share)	J.	2,000	0	0						
		£	4,000	0	0			£	4,000	0	0

SHARE CAPITAL ACCOUNT.

Dr. Cr.

			£	s.	d.				£	s.	d.
19 Jan 9	To Balance carried forward (102,000 £1 Shares) ..	√	102,000	0	0	19.. Jan. 9	By Balance brought forward	√	100,000	0	0
						" 9	" Transfer from Dividend Account, 2,000 Shares issued as fully paid in payment of Dividend .	J	2,000	0	0
		£	102,000	0	0			£	102,000	0	0
						19 Jan 10	By Balance brought forward	√	102,000	0	0

PREMIUM ON SHARES ACCOUNT.

Dr.			£	s.	d.		Cr.		£	s.	d.
						19 Jan. 9	By Transfer from Dividend Account, Premium on 2,000 £1 Shares issued @ £2 each in payment of Dividend . ..	J	2,000	0	0

PROFIT AND LOSS ACCOUNT.

Dr.			£	s.	d.		Cr.		£	s.	d.
19. Jan. 9	To Transfer to Dividend Account .. .	J	4,000	0	0	19 . Jan 9	By Balance brought forward	√	8,000	0	0
" 9	" Balance carried forward ..	√	4,000	0	0						
		£	8,000	0	0			£	8,000	0	0
						19.. Jan 10	By Balance brought forward	√	4,000	0	0

Financial houses, also, sometimes distribute shares or debentures, which they have acquired in flotations or other dealings, amongst their own shareholders by way of a *Scrip Dividend*. In these cases the distribution is on the same lines as a cash distribution, but must necessarily be made free of Income Tax.

Unclaimed Dividends.—Most companies, after some years of existence, accumulate a certain fund of unclaimed dividends. These should be shown as a separate item on the liability side of the Balance Sheet, and should be kept in a separate account at the bank, the balance of which will appear on the assets side of the Balance Sheet. The Articles of Association usually determine the mode of treatment of unclaimed dividends, providing that they shall be forfeited after three or five years; but if a Stock Exchange quotation is desired there must be no forfeiture clause. The original Table A of 1862 gave powers of forfeiture, but revised Table A does not give such powers. If the Articles are silent, the Statute of Limitations would appear to apply, and, as specialty debts, dividend claims are not barred for twenty years (*Drogheda Steam Packet Co*, [1903] Ir. R. 512; *Artisans' Land and Mortgage Corporation*, [1904] 1 Ch. 796). An entry in a Balance Sheet of debenture interest or dividends unclaimed is a sufficient "acknowledgment" of the debt within the *Civil Procedure Act*, 1833, S. 5, and will prevent the claim being barred (*Burnham* v. *Atlantic and Pacific Fibre Importing and Manufacturing Co.* [1928] W.N. 199). If entitled to do so by the Articles, the directors may pass a formal resolution forfeiting unclaimed dividends, and carry the amount of them to reserve. Most Articles of Association and Table A (Art. 96) provide that no dividend shall bear interest against the company.

Dividend Reserve Account.—This account, sometimes referred

to as the Dividend Equalisation Account, is a reserve created out of profits for the purpose of being used in whole or in part to provide funds for paying dividends in lean years, or to maintain the dividends at a regular average. If the profits earned by a company are liable to violent fluctuations, a fund of this kind is not only useful for levelling up the dividends in bad years, but also for steadying the market price of the shares. Such a reserve is merely an ordinary reserve created out of profits and earmarked for a special purpose. Such reserves are occasionally in the form of "Secret Reserves" (see p. 96). Profits carried to reserve remain profits always, and are available for dividend purposes if desirable, so that no very great advantage appears to be gained by attaching a particular label to a reserve of the kind, though a fund under this heading was contemplated in the original Table A. Provision for such a reserve also appears in the *Gas Works Clauses Act*, 1847, and the *Water Works Clauses Act*, 1847. In the revised Table A (Art. 93) power is conferred on directors to create a General Reserve, which, among other uses, may be applied to equalise dividends. It is submitted that, in the majority of cases, a reserve created for this purpose should be separately invested if it is to fulfil its object to the maximum advantage. The probability of earning a higher rate of interest on the reserve by retaining it in the business is not a consideration that should be allowed to interfere with the main purpose of a dividend reserve, viz. to retain in hand a considerable sum of money available for use at short notice. Almost without exception, modern Articles empower directors to set aside reserves out of profits prior to the recommendation of dividends, as they may think proper, and in some cases the dividend is limited until a reserve of definite amount has been accumulated.*

Debentures.

Opening Entries.—The entries necessary to record the issue of debentures at par, or at a premium, are precisely similar, *mutatis mutandis*, to those already explained in the case of a share issue. To facilitate the work of registration, separate application and allotment sheets and a separate banking account should be opened for the debenture issue. The subsequent procedure follows the lines already explained in connection with shares. The Journal entries will be:—

JOURNAL.

19... July 1	Debenture Application and Allotment Account Dr.	L. F.	£	s	d	£	s.	d.
	To 5 % Debenture Account							
	Etc.							

Debenture Interest.—It has already been remarked that when

* Under French and Belgian law such reserves are compulsory.

the debenture holders are numerous it is advantageous to keep a *Debenture Interest Book,* the form of which is shown at p. 171.

Coupons.—Interest on bearer debentures, as already explained, is paid by means of coupons attached to the bonds Bearer debentures are negotiable instruments (*Edelstein* v. *Schuler*, [1902] 2 K B. 144), and it is not possible therefore to keep a list of registered holders and draw up, periodically, interest warrant lists. A coupon list is prepared instead to record the payment of the coupons issued. All bonds are numbered, and a record is kept of their issue and the due dates of the coupons attached in sheets to the bonds. The following is an example of the form of such a list:—

COUPON LIST

No of Bearer Bond.	Date of Issue	Due Dates of Coupons and Dates Paid.							
		Due.	Paid.	Due	Paid.	Due.	Paid	Due.	Paid.

Some companies employ books resembling stamp albums for each dividend paid. The books are provided with spaces slightly larger than the coupons, each space bearing the distinctive number of an issued coupon, and as the coupons are paid they are pasted in their proper spaces. Separate books may be kept for the coupons maturing in each half-year.

When coupons are lost, duplicates will be issued only on a statutory declaration explaining the loss, accompanied by a letter of indemnity protecting the company. (See p. 268 as to unclaimed interest, and the *Burnham* case.)

Expenses of Issue.—Generally, the issue of debentures involves considerable expense All such expenses should be debited to a *Debenture Issue Expenses Account.* The cost of printing the bonds and coupons (if bearer bonds are issued), *ad valorem* duty on the bonds, underwriting commission, brokerage, advertising, law costs incidental to preparing the trust deed, fees paid on filing the necessary documents, are examples of the components of such expense accounts. The total of the account* must appear separately in the Balance Sheet (S. 124, ss. 2 (*b*)), and should be charged by instalments against revenue during the life of the debentures, or, preferably, within a shorter period. If the debentures are redeemable by annual drawings of fixed amount, it is fairer to apportion the expenses on the basis of the amount of debentures outstanding, so that the years benefiting by the loan shall bear their due proportion of the expenses incurred in raising it. Whatever view may be taken of this practice, it is certain that, when debentures are repayable at a fixed date, the expenses of issue will become a realised loss at that date, and they must, therefore, be gradually extinguished during the years benefiting by the use of the money raised by the issue.

* Expenses of share issue may be included.

Issue at a Discount.—Debentures may be issued at a discount if authorised by the Articles of Association, but formerly such an issue could not be coupled with an option to exchange them at par for fully-paid shares, since that would, in effect, be issuing shares at a discount (*Moseley* v. *Koffyfontein Mines*, [1904] 2 Ch. 108).† There would, of course, be no objection to giving an option to convert the debentures into shares validly issued at a discount at least equal to that at which the debentures were issued.

The amount of commission and discount on an issue of debentures must be stated in the prospectus (Fourth Schedule) and separately stated in the Balance Sheet (S 44) until wholly written off. (The commission allowed in respect of shares may be included with this total.) The Annual Return must also state the amount

Illustration —Rayon d'Or, Ltd., offered for subscription on December 17, 19.., 500 $4\frac{1}{2}$ % Debentures of £100 each at the price of 95, payable as to £10 on application, and the balance upon allotment. The whole issue was subscribed and allotted, and the amounts due paid on or before December 31, 19... An underwriting commission of 2 % was paid for the issue

DEBENTURES AT A DISCOUNT.

JOURNAL.

		L F.	£	s	d	£	s	d.
19 . Dec. 31	Debentures Application and Allotment Account . .. . .. Dr. To $4\frac{1}{2}$ % Debentures Account . Being £10 on application and £85 on allotment on 500 $4\frac{1}{2}$ % Debentures issued at 95 as per resolution of Directors, dated December 20, 19 .		47,500	0	0	47,500	0	0
	Debenture Issue Discount and Expenses Account .. . .. Dr. To $4\frac{1}{2}$ % Debentures Account . Being discount at the rate of £5 per debenture on 500 $4\frac{1}{2}$ % Debentures issued at 95 as above.		2,500	0	0	2,500	0	0
	Debenture Issue Discount and Expenses Account . .. . Dr. To Underwriters .. . . Being 2 % commission on issue of £50,000 $4\frac{1}{2}$ % Debentures due to underwriters		1,000	0	0	1,000	0	0
			£51,000	0	0	£51,000	0	0

LEDGER.

$4\frac{1}{2}$ % Debentures Account.

Dr. Cr.

			£	s	d				£	s.	d.
						19 . Dec. 31	By Debenture Application and Allotment Account *	J	47,500	0	0
						" 31	" Discount on issue of Debentures Account		2,500	0	0
									£50,000	0	0

* Sometimes this entry takes the form of the whole par value of the debentures, i e 'Applications, etc., Account Dr. to Debentures Account £50,000." The remaining entry is then: "Discount Account Dr to Applications, etc , Account £2,500 "

† This probably no longer holds good, as shares may now be issued at a discount.

$4\frac{1}{2}$ % Debentures Application and Allotment Account.

Dr			£	s.	d.				£	s.	d. Cr
19 .. Dec 31	To $4\frac{1}{2}$ % Debentures Account	J.	47,500	0	0	19 .. Dec. 31	By Cash	C B	47,500	0	0

$4\frac{1}{2}$ % Debenture Issue Discount and Expenses Account.*

Dr.			£	s	d.				£	s	d Cr
19... Dec 31	To $4\frac{1}{2}$ % Debentures Account (Discount)	J	2,500	0	0						
„ 31	„ Underwriters (Commission)		1,000	0	0						
			£3,500	0	0						

Underwriters.

Dr									£	s	d. Cr
						19 .. Dec 31	By Commission	J	1,000	0	0

CASH BOOK

Dr.			£	s	d				£	s	d Cr
19... Dec. 31	To Cash from Sundry Debenture Holders on Application and Allotment		47,500	0	0						

* It is usual to open a single account for the discount and expenses relative to an issue of debentures Strictly speaking, it would be better to open separate accounts.

of the discount [S. 108, ss 3 (*h*)]. Discount on an issue of debentures is merely deferred interest paid in a lump sum when the bond matures. It does not follow, when debentures are issued at a discount, that it indicates an unattractive security, or a stringent money market. It may be quite good finance if it results, as it sometimes does, in the issue being made at a lower rate of interest than that at which it would have been made had the issue been offered at par. In any case the company is under the obligation to repay the face value of the debentures when they expire, and this known liability must therefore be recorded in the books and dealt with in the annual accounts

The additional expenses incidental to the issue, as enumerated at p. 270, would also be added to the discount, and the whole amount, representing the total cost of the issue, would be written off during the life of the debentures, or, if desirable, at an earlier date.

In the case of irredeemable debentures, the expenses of issue are sometimes left as a permanent asset in the Balance Sheet on the ground that the loss does not materialise except in the event of liquidation. Irredeemable debentures are to all intents and purposes perpetual annuities. They may be issued by a limited company under S. 74. The majority of debentures are, however,

redeemable, either at the expiration of a fixed term of years, or by annual drawings. The conditions of issue are usually detailed in the trust deed or in the bond itself.

Issue at a Premium.—Debentures, like shares, may, of course, be issued at any premium the company can command. The necessary book entries will naturally be the converse of those shown in the previous illustration.

Illustration.—Rayon d'Or, Ltd., offered for subscription on December 17, 19 ., 500 5½ % Debentures of £100 each, at the price of 105, payable as to £20 on application and £85 on allotment The whole issue was subscribed and allotted, and the amounts due paid on or before December 31, 19 ..

ISSUE OF DEBENTURES AT A PREMIUM.

JOURNAL.

19		L.F.	£	s	d.	£	s.	d.
Dec 31	Debenture Application and Allotment Account . . . Dr.		52,500	0	0			
	To 5½ % Debenture Account . . .					50,000	0	0
	„ Premium on Debentures Account .					2,500	0	0
	Being £20 on application and £85 (including premium of £5) on allotment on 500 5½ % Debentures of £100 each allotted as per resolution of Directors, dated December 20, 19...							
			£52,500	0	0	£52,500	0	0

The Ledger accounts would be on similar lines to those already illustrated in connection with the issue of shares at a premium, and need not be repeated The premium account should be treated as a capital reserve, and the remarks already made in this connection apply in this case also, although they cannot be emphasised, perhaps, logically so strongly in the case of debentures as in the case of shares, and, in the absence of prohibition in the articles, such premiums can be treated as revenue profits.

From the bondholder's point of view the premium paid represents the capitalised reduction of his interest To arrive at the true income produced by the investment he must amortise the premium paid out of the accruing interest

In reality, the issue of debentures at a discount or at a premium amounts in effect to the payment of a higher or lower rate of interest than the nominal rate stated in the bond For example (ignoring Income Tax):—

(*a*) An issue of 4½ % Debentures at 90, repayable at par at the end of twenty years, amounts in reality to the payment of interest at £5 11s. 1d. % per annum

(*b*) An issue of 4½ % Debentures at 110, repayable at par in twenty years, amounts in reality to the payment of interest at £3 12s. 9d. % per annum.

(*c*) An issue of 4½ % Debentures at 97, repayable at 110 in twenty years, amounts in reality to the payment of interest at £5 6s. 2d. % per annum.

To be strictly logical, both discounts and premiums should be equally spread, on a compound interest basis, over the life of the debenture. This course, however, is rarely followed, it being

meticulous, and perhaps too technical, for the average company director.

Redemption of Debentures.—Frequently the conditions of issue provide for the service of a Sinking Fund to redeem the debentures by a single payment at the date of expiry. For this purpose, Capital Endowment Policies are sometimes taken out with assurance companies, the annual premiums upon the policy being accumulated in the Balance Sheet as an investment representing the Sinking Fund. This procedure is, perhaps, rather more costly than the investment of the Sinking Fund in Stock Exchange securities, but it has the advantage of being less approximate in result, and it prevents the possibility of a final shortage in the fund owing to market depreciation of the securities held.

If an endowment policy is taken out, the entries should be journalised thus:—

JOURNAL.

		£	s.	d.	£	s.	d.
	Profit and Loss Account (Appropriation Section) . . . . . . Dr.	1,000	0	0			
	To Sinking Fund for Redemption of Debentures				1,000	0	0
	Being the annual instalment on the fund for the redemption of 4½ % Debentures as per conditions of issue						
	Debenture Redemption Policy Account Dr	1,000	0	0			
	To Cash				1,000	0	0
	Being the annual premium on Policy No 48726 for the service of the Sinking Fund.						
	(In practice this amount would be posted direct from the Cash Book.)						

Instead of taking out an insurance policy, the directors may decide to invest annually such a sum as will produce the amount required to redeem the debentures at their due date. This method is liable to be falsified in its final result, owing to depreciation, or appreciation, in the ultimate selling value of the accumulated investments The annual sums, with the interest thereon, must be invested in gilt-edged securities, which yield the rate of interest assumed when determining the amount of the annual instalment. This will be found by taking the Sinking Fund value of £1 for the term of the debentures at the rate of interest assumed and multiplying the total value of the debentures to be redeemed by it.

Illustration —To redeem £100,000 Debentures in twenty years at 3 % compound interest:—

Take the instalment shown by the tables as necessary to produce £1 in twenty years at 3 % = £0·0372, and multiply the whole issue by this figure, viz. 100,000 × 0 0372 = £3,720 = the annual amount to be invested at 3 % compound interest.

This amount, invested annually, will be credited to the "Sinking Fund for the Redemption of Debentures," and all interest derived from the investments will also be credited to the Sinking Fund and invested.

The necessary Journal entries would be as follows:—

JOURNAL

	£	s	d	£	s	d
Profit and Loss Account (Appropriation Section) .. . . . Dr	3,720	0	0			
To Sinking Fund for Redemption of Debentures				3,720	0	0
Being the annual instalment necessary for the redemption of the debentures as per the conditions of issue.						
Investment of Sinking Fund .. .. Dr.	3,720	0	0			
To Cash..				3,720	0	0
NOTE —This latter entry represents the purchase of the necessary investment, and would, in practice, be posted direct from the Cash Book.						

Whatever procedure is adopted, the amount required to redeem the debentures at their due date should be available in cash. When this date arrives, the sum assured will be received or the investments realised, and the debentures paid off Assuming that the Sinking Fund produced the exact amount required, the Balance Sheet immediately prior to the repayment of the debentures would appear as follows.—

BALANCE SHEET.

LIABILITIES.	£	ASSETS.	£
Debentures	100,000	Cash (Derived from payment of policy or sale of Sinking Fund investments)	100,000
Sinking Fund	100,000		

On the repayment of the debentures the Sinking Fund still remains, and should be transferred to the general reserve. It is a reserve which has been accumulated out of profits, and is represented by the various assets of the company.

Annual Drawings.—Debentures usually run for periods of five, ten, fifteen, or twenty years, power being sometimes reserved for earlier redemption—frequently at a premium—at the option of the company. When a stated proportion of the debenture issue is to be paid off annually by means of drawings, the numbers of the debentures to be redeemed are drawn by ballot. Six months' notice is usually given to the registered holders of the debentures drawn When the debentures are bearer bonds, the numbers drawn are advertised in the public Press. It is sometimes contended that when the redemption of a debenture issue is completed, the saving secured on redemptions effected at less than par is a revenue profit, since it represents a capitalised reduction of interest on a debt and, therefore, an *ex post facto* revenue profit. Apparently there is no *legal* objection to this profit being used for dividend purposes in the absence of any prohibition in the Articles.

Purchase in Open Market.—Sometimes the conditions of issue provide that debentures may be redeemed by purchase in the open market at prices not exceeding a fixed maximum. The annual amount of such purchases may represent a fixed percentage of the whole issue, or it may vary at the discretion of the directors.

The debentures are either purchased direct by the company, or by the trustees for the debenture holders The book-keeping entries are similar to those involved in the case of redemption by annual drawings. Any debentures so redeemed or purchased are deducted, at their nominal value, from the total debentures in the Balance Sheet. Where the company has power to reissue debentures which have been redeemed, particulars with respect to the debentures which can be so reissued *must* be included in every balance sheet of the company (S. 75 ss. 3), e.g. as follows:—

LIABILITIES.

	£ s. d.	£ s. d.
Debentures:—		
500 $4\frac{1}{2}$ % Debentures of £100 each	50,000 0 0	
Less 50 $4\frac{1}{2}$ % Debentures of £100 each redeemed to date and available for reissue.. ..	5,000 0 0	
		45,000 0 0

If debentures are purchased at a less sum than par, the difference should be transferred to the credit of a "Discount on Redemption of Debentures Account" and treated as a capital reserve. There appears, however, to be no legal obstacle to the employment of the amount for dividend purposes.

Debentures as Additional Security.—Not infrequently, debentures are deposited with the company's bankers as additional security for a loan or overdraft, the amount of which is usually limited to, say, 90 % of the debentures deposited. Such debentures are not treated as an ordinary issue would be treated, since the company's liability to the bank is the amount of the overdraft and not the face value of the debentures. A note that such debentures have been deposited must, however, appear in the Balance Sheet, although no entries are necessary in the financial books. Particulars of the charge must, also, be entered in the Register of Mortgages and in the Annual Return, and filed in due course with the Registrar. It may be repeated that when the overdraft has been repaid and the company's banking account is again in credit, the debentures are not necessarily considered to be redeemed [S 75, ss. (4)]. The same debentures may be kept alive and used again to secure a fresh advance. The note in the Balance Sheet referred to above would appear as follows:—

LIABILITIES.	£ s. d.
Overdraft at Bankers	5,860 19 8
(Secured by issue of £6,000 $4\frac{1}{2}$ % Debentures.)	

A little thought will make it clear that no other entry is necessary in the company's Balance Sheet. Examinees frequently get into difficulties with entries of this description.

Reissue of Debentures.—It has already been mentioned that

under S. 75 redeemed debentures may be reissued, unless the articles or conditions of issue forbid. Reissue may be effected by endorsement or otherwise, or by the issue of fresh debentures to take the place of the old. In either case, the reissue must be stamped as new debentures. Redeemed debentures may be conveniently kept alive by transferring them to nominees of the company, and subsequently retransferring them to the new purchaser. Prior to 1907, power to reissue redeemed debentures did not exist In several cases it had been held that reissue was *ultra vires.* No fresh registration of reissued debentures with the Registrar is necessary, unless the reissue creates a new charge.

In the case of the reissue of individual bonds the entries are simple—Cash is debited and Debenture Account is credited. The transaction represents the receipt of the cash, and the creation of a secured loan to the amount of the bond

Sometimes a whole series of debentures is redeemed and reissued The redemption may take place upon the expiration of the terms of the loan, or notice of repayment may be given by the company under the powers contained in the conditions of the issue. Prosperous companies have adopted this procedure in the past in order to obtain loan accommodation upon more favourable terms. Debentures carrying 5 % interest have, for instance, been redeemed and reissued at 4 % or 4½ %. Latterly, however, owing to the issue of Government loans at 5 %, the process has been reversed in not a few cases, and debentures have been reissued at higher rates of interest in order to compete successfully with the Government In such cases all the old bonds must be called in and cancelled, and fresh bonds issued for the new loan. If the bonds are actually paid off in cash, the entry will be "*Debenture Account Dr. to Cash.*" If, however, as is more usual, the old debenture holders consent to accept the new bonds, the only entry in the financial books will be the closing of the old debenture account by means of a transfer to the new debenture account, e g :—

JOURNAL.

		L F	£	s	d	£	s.	d.
19 . Jan 1	4½ % Debentures Account .. .. Dr. To 5 % Debentures Account .. Being cancellation of series No. 1 to 1000 and the issue of series No 2001 to 3000							

Sometimes a company will offer the holders of maturing debentures renewal of their debentures until a later date at an enhanced rate of interest. In such cases, the bonds are usually endorsed with particulars of the extension and returned to their owners

Notice of the changes effected must be sent to the Registrar of Companies, and the Register of Mortgages, both in the company's office and at Somerset House, must record the discharge of the old debentures and particulars of the new issue.

When a debenture has been redeemed and transferred to the company's nominee for reissue at an early date, there will be no need to reduce the liability shown under the heading of Debentures issued. The amount represented by the redeemed debenture is treated, for the time being, as an amount due from the company's nominee, and, when the debenture is reissued, the proceeds of the reissue will cancel the nominee's debit.

Interest on debentures must be paid less income tax, and the tax deducted is accounted for in due course to the Inland Revenue authorities. The only exception known to the author is the case of a company which contracted to pay, as additional interest, whatever rate of income tax was in force for the time being.

Increase of Capital.

The Capital of a company cannot be altered except under the powers conferred by statute. Moreover, notwithstanding anything in the Memorandum or Articles of a company, no member can be bound by an alteration made in the Memorandum or Articles after the date on which he became a member, if and so far as the alteration requires him to take or subscribe for more shares than the number held by him at the date on which the alteration is made, or in any way increases his liability as at that date to contribute to the share capital of, or otherwise to pay money to, the company, unless the member agrees in writing, either before or after the alteration is made, to be bound thereby (S. 22).

When the authorised capital of a company has been fully issued, and further capital is needed for development or other purposes, the capital can be increased by virtue of S. 50, if the increase is also authorised by the Articles. The increase can be effected by ordinary resolution unless the Articles require an extraordinary or special resolution. Articles of Association almost invariably contain the required authority, and if they do not, they can be altered to that end by special resolution. It is no longer permissible for the Articles to give power to the directors to make the increase; the power must be exercised by the company in general meeting (S. 50, ss. 2).

The procedure in connection with a new issue of shares is similar to that described in connection with an original issue. A separate Cash Book and Banking Account should be opened for each class of share issued. It is advisable, in the first instance at any rate, to open a separate capital account entitled "New Ordinary Share Capital Account," in order that the matters relating to the new issue may be kept distinct from the old capital issue. When the issue is complete, and the shares are fully paid, this account may be amalgamated, if thought desirable, with the old Share Capital Account.

A printed copy of the resolution increasing the capital of the company must be filed, within fifteen days, with the Registrar (fee 5s., and a Memorandum fee according to the amount of the increase, unless the maximum Memorandum fees have already

been paid on share capital previously authorised), and must be added to every copy of the Memorandum of Association subsequently distributed. *Ad valorem* duty must also be paid on the amount of the new capital issued. These expenses, and any others incurred in respect of the new issue, should be debited to an account headed "New Capital Issue Expenses Account," and, as in the case of Preliminary Expenses, written off within a reasonable number of years.

Variation of Shareholders' Rights.

It may, in cases, become desirable to vary or even to abrogate, the rights attaching to a particular class of shares, where various classes have been issued. Where the Memorandum or Articles authorise the rights attaching to a particular class of shares to be varied, and those rights are varied in conformity with the company's regulations, a minority of members holding those shares and not consenting to or voting for the variation, if in the aggregate the minority represents not less than fifteen per cent. of the issued shares of that class, may apply to the Court to have the variation cancelled The application must be made within seven days after the date on which consent to vary was given, or the resolution to vary was passed, and it may be made by one or more of the dissentients appointed, in writing, by the whole body of dissentients to act on their behalf. As soon as the application is made, the variation cannot have effect until it is confirmed by the Court. After the Court has heard the application it either disallows or confirms the variation The Court's order is final, and a copy of the order must be forwarded to the registrar within fifteen days after the making of the order. S. 61, which deals with this matter, is given below.—

(1) If in the case of a company, the share capital of which is divided into different classes of shares, provision is made by the memorandum or articles for authorising the variation of the rights attached to any class of shares in the company, subject to the consent of any specified proportion of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares, and in pursuance of the said provision the rights attached to any such class of shares are at any time varied, the holders of not less in the aggregate than fifteen per cent. of the issued shares of that class, being persons who did not consent to or vote in favour of the resolution for the variation, may apply to the Court to have the variation cancelled, and, where any such application is made, the variation shall not have effect unless and until it is confirmed by the Court.

(2) An application under this section must be made within seven days after the date on which the consent was given or the resolution was passed, as the case may be, and may be made on behalf of the shareholders entitled to make the application by such one or more of their number as they may appoint in writing for the purpose.

(3) On any such application the Court, after hearing the applicant and any other persons who apply to the Court to be heard and appear to the Court to be interested in the application, may, if it is satisfied, having regard to all the circumstances of the case, that the variation would unfairly prejudice the shareholders of the class represented by the applicant, disallow the variation and shall, if not so satisfied, confirm the variation.

(4) The decision of the Court on any such application shall be final.

(5) The company shall within fifteen days after the making of an order by the Court on any such application forward a copy of the order to the registrar of companies, and, if default is made in complying with this provision, the company and every officer of the company who is in default shall be liable to a default fine.

(6) The expression "variation" in this section includes abrogation and the expression "varied" shall be construed accordingly.

REDUCTION OF CAPITAL.

When trading losses have accumulated, or capital losses have been suffered to such an extent that the book valuations of the assets are no longer tenable, and the company has in consequence become so over-capitalised that declaration of dividends out of the probable revenue is impossible, it becomes advisable to reduce the capital of the company. Very occasionally, a company may decide to reduce its share capital by returning to its members an excess of working capital. The student is aware that the legislature attaches supreme importance to the obligation of a company to keep its share capital intact. Though power to reduce capital can be exercised in certain circumstances, numerous safeguards against the improper exercise of the power have been imposed by statute. What is in effect reduction of a company's capital may be legally effected, if authorised by the Articles, without reference to the special powers of the statute, viz. by the forfeiture of shares, as already explained in the previous chapter, or by the surrender of shares in circumstances admitting their forfeiture (*Bellerby* v. *Rowland and Marwood's Steamship Co.*, [1902] 2 Ch. 14). A company may not reduce its capital by dealing in any way with its own shares (*Trevor* v. *Whitworth* (1888), 12 App. Ca. 409); and it is prohibited from lending money to any person for the purpose of purchasing its own shares, except in connection with schemes for the benefit of employees (S 45) (See p. 365.)

Statutory power to reduce capital is derived from the following sections of the Act of 1929:—

S. 50 (1) (*e*). By this subsection a company is authorised to diminish its share capital by cancelling shares which have not been taken or agreed to be taken by any person. A reduction of nominal capital in this way is not, however, to be deemed a reduction of capital within the meaning of S. 55 (see below).

S. 55. This section gives power to a company to reduce its share capital "in any way," and mentions specifically the three ways following in which reduction can be effected: (*a*) By extinguishing or reducing the liability on any of its shares not paid up; (*b*) by cancelling paid-up capital which has been lost or is unrepresented by available assets; (*c*) by returning to its shareholders capital proved to be in excess of the company's wants.

Reductions of capital under S. 55 can only be effected if the Articles originally, or as amended by special resolution, confer the power, and in all cases the power to reduce capital can only be

exercised after the passing of a special resolution to that effect. In addition to this, the powers conferred by S. 55 require that the special resolution for reduction shall be confirmed by the Court after it has been passed.

Share capital may be reduced even though there is no proof that the capital in question is lost or unrepresented by assets [S. 55, ss. (1) (*b*)], and see *Poole* v. *National Bank of China*, [1907] App. Ca. 229.

Reductions of capital requiring confirmation by the Court are by far the most frequent in practice. The wording of the special resolution usually takes some such form as the following:—

RESOLVED that the capital of Excelsa, Ltd , shall be reduced from 100,000 ordinary shares of £1 each fully paid to 100,000 ordinary shares of 10s. each fully paid, and that such reduction shall be effected by writing off capital which has been lost or is no longer represented by available assets.

When the special resolution has been passed, an application must be made to the Court for an order confirming the reduction (S. 56). If the proposed reduction involves any diminution of the amount of the uncalled capital, or a return of any paid-up capital to the shareholders, and in any other case if the Court so directs, the consent of the creditors of the company must be obtained, unless the Court dispenses with such consent.

If the capital of the company does not exceed £10,000, the application may be made to the County Court having jurisdiction in bankruptcy of the district in which the registered office of the company is situate; but if the capital exceeds £10,000, the application must be made to the High Court The High Court has jurisdiction for any company The petition must state briefly the objects of the company, its registered office, the nominal capital, the number of shares issued, and the extent to which they have been paid up, also that the company possesses power to reduce its capital and has passed the special resolution to carry the reduction into effect. Reasons for the reduction must be stated in the petition, and a statement must be added showing the position of the company after the proposed reduction has been effected. At the hearing of the petition an affidavit in support of the above particulars must be forthcoming, together with proof that the necessary meetings were duly convened and held. If the creditors are concerned, the amount of the alleged loss must also be proved, though it would appear that the proof need not be too detailed (*in re Louisiana and Southern States Real Estate and Mortgage Co.*, [1909] 2 Ch. 552).

Under S. 57, ss. 2, the Court has power, which it rarely exercises, to order the company to add to its name as the last words thereof the words " and reduced," for a named period.

When the proposed reduction involves a return of paid-up capital to the shareholders, or a reduction of the liability for unpaid capital, any creditor objecting to the proposed reduction may attend the hearing of the petition and state his objection. It is only in these circumstances that creditors can object to a reduction of capital. To prevent opposition from creditors, it is

usual to reduce the liabilities of the company as much as possible prior to the presentation of the petition to the Court. If the creditors of the company are unaffected by the proposed reduction of capital, the Court will confine itself to demanding proof that the rights of the various classes of members have been protected.

Where preference shares are concerned, the Court requires that a resolution, agreeing to the terms of the reduction, shall have been passed by a majority in number representing three-fourths in value of the holders of such shares who attended and voted either in person or by proxy at a meeting called for the purpose, under S. 153, or otherwise according to the Articles. In cases where the preference shares have no preferential capital rights, schemes will not be sanctioned which do not reduce the preference shares as well as the ordinary shares, unless the holders of the latter consent. If the preference shares carry preferential rights as to capital, the whole loss frequently falls upon the ordinary shareholders, since they would have to bear the loss in the event of liquidation.

When a reduction of capital is decided upon, the shares can be reduced in nominal value to any desired extent. But no further liability can be attached to the shares if they are fully paid (S. 59). The whole basis of the Act is to limit the liability of the shares to the amount for which they were issued, and the imposition of a fresh liability would defeat this end. For example, a company whose capital consists of 100,000 fully-paid shares of 10s. each cannot reduce its capital to 100,000 shares of 5s. each, credited as paid up to the extent of 4s. with an uncalled liability of 1s. per share. In effect, this would be to make the shareholders liable for 11s. per share in place of the 10s. which they originally undertook to pay. If the company desires to raise fresh working capital, it must do so by making a fresh issue in the shape of preference shares or debentures. As an alternative, the company may go into formal liquidation, and sell its property to a new company consisting of the old shareholders with readjusted capital rights. If this course is followed, the shares can then be issued at a reduced nominal value, with the addition of a liability for uncalled capital.

When the order of the Court has been issued, it must be registered with the Registrar of Companies, and published in any manner the Court may direct, usually by advertisement in the same London and local newspapers in which the announcement of the presentation of the petition was made (SS. 57–58).

The date from which the reduction of capital takes effect is the date of registration of the order with the Registrar (S. 58).

Particulars of the reduction of capital as approved by the Court and filed, and also of a reduction of capital by cancellation under S. 50, ss. 1 (e), must be added to every copy of the Memorandum of Association subsequently issued.

If only one class of share exists, it is usual to write off the desired amount of capital by means of a *pro rata* reduction of each share. If different classes of shares have been issued, it is sometimes difficult to adjust the reduction fairly between the various classes of shareholders. When preference shares carry preferential capital rights, it is unlikely that the preference shareholders will

agree to a reduction of the nominal value of their shares, unless the bulk, at any rate, of the capital loss is borne by the ordinary shareholders. In practice, the apportionment of capital losses between the several classes of shareholders frequently presents the chief difficulty attached to a reconstruction scheme

The Register of Members must, of course, be amended in detail, in accordance with the terms of the scheme for the reduction of the capital, and the old certificates must be called in for exchange for new ones or for amendment.

If the shares of a company which has reduced its capital are quoted on the Stock Exchange, or a quotation is sought for them, the Committee of the Stock Exchange require to be supplied with a copy of the order of the Court reducing the capital and the Registrar's certificate of registration. Certified copies of all the necessary resolutions relating to the reduction, specimens of the amended share certificates, a statement by the secretary of the present capital of the company, and an assurance that the new certificates are ready for delivery in exchange for the old ones must also be forthcoming.

Illustration.—Soleil d'Or, Ltd., was floated with a capital of £100,000 in 100,000 Ordinary Shares of £1 each, and 100,000 6 % Preference Shares of £1 each. The capital was fully subscribed and paid The preference shares carried cumulative preference rights as to dividend, but not as to capital repayment. The company was unsuccessful, and sustained trading losses amounting to £30,000. In addition, the majority of the patents acquired by the company proved to be worthless It was resolved to write off £100,000 of the subscribed capital by reducing each class of share by 10s per share, and to reduce the assets correspondingly by wiping out the debit balance of the Profit and Loss Account (£30,000) and writing down Goodwill to the extent of £30,000, Patents £30,000, and Preliminary Expenses Account £10,000.

JOURNAL

19 .		L F	£	s	d	£	s.	d
July 21	Ordinary Share Capital Account Dr.		50,000	0	0			
	To Reduction of Capital Account .					50,000	0	0
	Being 10s per share written off the 100,000 Ordinary Shares as per order of the Court, dated this day.							
,, 21	6 % Preference Share Capital Account Dr		50,000	0	0			
	To Reduction of Capital Account .					50,000	0	0
	Being 10s per share written off the 100,000 Preference Shares as per order of the Court, dated this day.							
21	Reduction of Capital Account . Dr		100,000	0	0			
	To Goodwill Account . .					30,000	0	0
	,, Patents Account .					30,000	0	0
	,, Preliminary Expenses Account .					10,000	0	0
	,, Profit and Loss Account .					30,000	0	0
	Being allocation of the amount available for the reduction of the assets and the extinction of the debit balance of Profit and Loss Account.							

A process somewhat analogous to that described above can be resorted to by a life assurance company when it has been shown by actuarial valuation that the company is unable to meet its policy liabilities. The face value of all the policies can be reduced *pro rata* so that in the aggregate the company's liability does not exceed its resources.

REDEMPTION OF REDEEMABLE PREFERENCE SHARES.

The provisions of Section 46 of the Act have been fully set out on p. 139. It will now suffice to give a composite example of the redemption of such shares.

Illustration.—The summarised Balance Sheet of Dicksons, Ltd., on December 31st was as follows:—

	£		£
Share Capital:—			
Authorised			
100,000 Shares of £1 each	100,000	Sundry Assets	102,000
		Cash	26,000
Issued:—			
60,000 Ordinary Shares of £1 each, 15s. paid	45,000		
40,000 6 % Redeemable Preference Shares of £1 each, fully paid	40,000		
	85,000		
Liabilities (Sundry)	15,000		
Profit and Loss Account	28,000		
	£128,000		£128,000

Under the terms of issue of the Redeemable Preference Shares, the company have the option to redeem them at any time within the next two years at a premium of five per cent. It is decided to redeem them forthwith, and for the purpose of providing £20,000 of the money required for the purpose, a fresh issue of 5½ % Redeemable Preference Shares of £1 each, payable in full on application, is made and fully subscribed on January 3rd The 6 % Redeemable Preference Shares are then redeemed on January 10th, the balance being out of profits.

The Journal entries giving effect thereto are as follows:—

JOURNAL.

19 ..				£	s.	d.	£	s.	d.
Jan.	3	Cash . . . . Dr.		20,000	0	0			
		To 5½ % Redeemable Preference Shares Application and Allotment Account					20,000	0	0
		Being receipt of £1 per share on application for 20,000 5½ % Redeemable Preference Shares of £1 each . .							
		5½ % Redeemable Preference Shares Application and Allotment Account Dr		20,000	0	0			
		To 5½ % Redeemable Preference Share Capital Account					20,000	0	0
		Being allotment as fully paid of the above shares as per directors' resolution of this day							
,,	10	6 % Redeemable Preference Share Capital Account . . . . . . Dr		40,000	0	0			
		Profit and Loss Account . . . . Dr.		2,000	0	0			
		To Sundry Members					42,000	0	0
		Being transfer of shares now redeemable and provision of the premium of 5 % thereon as per directors' resolution of this day							
		Sundry Members . . . . . . Dr		42,000	0	0			
		To Cash					42,000	0	0
		Being redemption of the above shares							
		Profit and Loss Account . . . . . . Dr		20,000	0	0			
		To Capital Redemption Reserve Fund					20,000	0	0
		Being transfer of a sum equal to the amount applied out of profits in redeeming the shares, in accordance with Section 46, subsection (1) (c) of the Companies Act, 1929.							

It will be seen that the company temporarily exceeded its authorised capital, but no stamp duty is payable on such an excess, provided the redemption is carried out within one month after the issue of the new shares [S. 46, ss. (4)].

The company having issued new shares to the amount of £20,000, the Capital Redemption Reserve Fund is available for paying up an equal amount of Bonus Shares [S. 46, ss. (5)].

Reconstruction.

When the working capital of a company has become exhausted, it frequently happens that a new lease of life is obtained by a reconstruction of its capital arrangements. Reconstruction is not a term of any legal significance, and it is commonly applied to various procedures, some of which are wholly unconnected with financial pressure or lack of success. For example, reconstruction may take place (1) for the purpose of amalgamation with an existing company; (2) with the object of absorbing the business of a smaller company; (3) to enlarge the objects set out in the Memorandum. It must be remembered that although the Memorandum may be altered by special resolution in certain specified cases, yet any sweeping alteration usually involves reconstruction, and the preparation of a new Memorandum of Association, (4) to engage in other businesses; (5) for the purpose of reorganising the capital issues and rearranging the rights of the various classes of shareholders as between themselves; (6) to compound with creditors by allotting shares in satisfaction of their debts; (7) to cancel lost capital; (8) to give an increased number of shares of the same, or smaller, denomination to the shareholders. The last procedure has been adopted in recent years by several successful companies.

In some of the cases mentioned the process of reconstruction imposes no very heavy task upon the book-keeper. Where, for instance, reconstruction is effected for the purpose of enlarging the powers contained in an inconvenient Memorandum of Association, or for issuing shares with prior rights to the existing issues, the old books would still serve, the only new account being the "Reconstruction Expenses Account," or the accounts necessary for the record of the new capital issued. The reconstruction expenses would be written off to Profit and Loss Account by instalments.

When reconstruction involves the reduction of capital by the repayment to the shareholders of a portion of the paid-up capital, new share certificates would be issued showing the altered conditions, and the cash repaid to the shareholders would be debited (*Share Capital Account Dr. to Cash*) to the Share Capital Account, thus reducing the credit balance of that account.

The course usually adopted in reconstructions is the liquidation of the old company, and the formation of a new company to take over the business and assets of the old company. The purchase price of the old business usually takes the form of fully or, more usually, partly-paid shares in the new company. In this way the

old shareholders retain their interest in the venture, and contribute, to the extent to which the purchase shares are unpaid, to the capital raised by the new shareholders. In some cases, of course, there are no new shareholders, and then the only means of raising fresh working capital is to increase the unpaid liability attaching to the new shares. The fact that the objects clause of the Memorandum authorises the sale of the company's assets does not deprive a dissentient shareholder of his rights under S. 234, nor can he be forced to accept partly-paid shares in the new company as an alternative to losing his status as a shareholder in the old company (*Bisgood* v. *Henderson's Transvaal Estates, Ltd.*, [1908] 1 Ch. 743).

The usual procedure is to make a "Declaration of Solvency" (see p. 435), and to convene an extraordinary general meeting of the shareholders, after giving due notice, and sending to each shareholder a copy of the proposed special resolutions: (1) for the winding-up of the old company; (2) for the appointment of a liquidator, who, in such cases, is usually the secretary of the company; and (3) for the approval of the proposed sale of the company's business and assets to the new company. If a resolution naming the liquidator is not given in the notice, any person may be nominated as liquidator, and elected by an ordinary resolution when the special resolution for winding up has been passed. Full details of the proposed sale and reconstruction should be sent out with the notice convening the meeting, and when these resolutions have been passed as special resolutions they should be advertised in the *Gazette* (London or Edinburgh, as the case may be).

In the course of an ordinary liquidation, the liquidator, by sanction of a special resolution, may dispose of the company's assets to a new company, in consideration for an issue of shares to the old shareholders (S. 234), even though no such reconstruction may have been contemplated prior to his appointment. If the special resolution is duly passed, it is binding on all the shareholders; but a dissentient shareholder, who has not voted in favour of the resolution, may, by expressing his dissent in writing within seven days of the passing of the resolution, require the liquidator either to purchase his interest at a price agreed upon or fixed by arbitration, or to abandon the scheme altogether.

In practice it is usually possible in such cases to buy out dissentient shareholders for a nominal consideration. The dissentients are usually small shareholders, since few reconstruction schemes are launched at all until the support of all the large shareholders is assured. If the dissentient shareholder forfeits his rights by failing to express his dissent within the statutory seven days, he cannot be compelled to accept shares with any liability attached to them, but he has no other remedy except the abandonment of his interest altogether, unless he elects to take the extreme step of applying for a compulsory liquidation, in which case the proposed scheme would need the sanction of the Court. If the liquidation is a Creditors' Voluntary Winding-up,

the liquidator cannot sell except with the sanction either of the Court or of the Committee of Inspection (S. 243)

A time limit must be fixed in the reconstruction agreement, within which all shareholders must express their consent to the scheme, and if shares in the new company are not accepted within the limit given, they will be held to be at the disposal of the new company. The proceeds of such shares, if disposed of, go to the shareholder concerned, but failing their disposal the shareholder will lose all his interest in them. It is a matter of surprise, even in cases where a promising reconstruction scheme is carried, how large a number of shareholders, either through apathy or negligence, fail to take any part in the procedure, and so forfeit all their rights.

The contract transferring the assets to the new company must be duly stamped and filed with the Registrar.

The name adopted by the new company is frequently identical with that of the old company, with the addition, in brackets, of the year of incorporation, e.g. "*Rayon d'Or* (1931), *Limited.*" The consent of the old company to the use of its name must be filed, if the name is to be identical with or so closely resembling that of the old company as to be calculated to cause confusion

Provision for the payment of the old company's liabilities must be made by the new company, if the creditors are not provided for and do not participate in the reconstruction scheme by accepting shares in the new company in discharge of their debts.

If a Stock Exchange quotation of the shares of a reconstructed company is desired, the Committee must be furnished with (*a*) the Certificate of Incorporation; (*b*) a statement explaining the reconstruction, with (*c*) certified copies of all the necessary resolutions and circulars in connection with the passing of the scheme, (*d*) the Allotment Book; (*e*) a copy of the new share certificate; and (*f*) a statutory declaration by the chairman and secretary that all legal requirements have been duly complied with.

Illustration —Soleil d'Or, Ltd., having proved unsuccessful, resolves, by special resolution, to wind up for the purpose of reconstruction and sale to a new company. The Balance Sheet of the old company at the date of the resolution was as follows:—

BALANCE SHEET, DECEMBER 31, 19...

LIABILITIES.		£	s	d.	ASSETS	£	s	d
Capital—					Land and Buildings	45,000	0	0
100,000 Ordinary Shares of					Machinery and Plant .. .	21,000	0	0
£1 each, fully paid		100,000	0	0	Sundry Debtors	10,000	0	0
Sundry Creditors ..	£3,000				Stock on hand	5,000	0	0
Bills Payable	2,000				Cash at Bank	1,000	0	0
		5,000	0	0	Profit and Loss Account (Accumulated Loss)	20,000	0	0
	£	105,000	0	0	£	105,000	0	0

The scheme of reconstruction, assented to by all parties, was as follows:—

(1) The new company, Soleil d'Or (19..), Ltd, was to take over all the assets of the old company, but not the liabilities.

(2) The capital of the new company was to be £150,000, in 150,000 shares of £1 each.

(3) The new company was to purchase the goodwill, business, and assets of the old company for the sum of £75,300, payable as to £70,000 by the issue of 140,000 ordinary shares of £1 each, with 10s. per share credited as paid up, and as to £5,300 in cash.

(4) The members of the new company were to pay the balance of 10s. per share due upon the shares issued to them as to 5s. on application and the balance on allotment.

The expenses of winding-up the old company amounted to £300. There were no dissentient shareholders, and all the calls were duly paid. No further shares were issued beyond those forming part of the purchase consideration for the transfer of the business.

RECONSTRUCTION.

Assuming that the registration and other preliminary expenses of the company amounted to £1,000, the initial Balance Sheet (summarised) of Soleil d'Or (19..), Ltd., the new company, would be as follows:—

BALANCE SHEET.

LIABILITIES	£	£	s.	d.	ASSETS.	£	s.	d.
Capital—					Sundry Assets* taken over from the old company, and written down . ..	74,300	0	0
Nominal: 150,000 Ordinary Shares of £1 each	£150,000				Preliminary Expenses ..	1,000	0	0
					Cash	64,700	0	0
Issued: 140,000 Shares of £1 each (issued with 10s credited), fully paid ..		140,000	0	0				
	£	140,000	0	0	£	140,000	0	0

SOLEIL D'OR, LIMITED.

JOURNAL.

19...		L F.	£	s	d	£	s	d.
Dec 31	Realisation Account .. .. Dr	19	85,000	0	0			
	To Sundries —							
	Land and Buildings Account . .	1				45,000	0	0
	Machinery and Plant Account .. .	3				24,000	0	0
	Sundry Debtors	5				10,000	0	0
	Stock	7				5,000	0	0
	Cash at Bank .. .	9				1,000	0	0
	Being the transfer of the company's assets to the new company as per reconstruction Scheme							
,, 31	Soleil d'Or (19 .), Ltd .. .. Dr	23	75,300	0	0			
	To Realisation Account .	19				75,300	0	0
	Being the agreed purchase price of the assets of the company							
,, 31	Shares in the new company, Soleil d'Or (19), Ltd . . . . Dr	21	70,000	0	0			
	To Soleil d'Or, Limited (new company)	23				70,000	0	0
	For 140,000 shares (10s paid) issued as part purchase price of assets as per Reconstruction Scheme							

* Excluding £1,000 Cash, which is included in the Cash Balance.

JOURNAL—*continued.*

		L F.	£	s	d	£	s.	d.
19.. Dec. 31	Realisation Account . .. . Dr To Sundry Creditors .. .. Being cost of Winding up.	19 15	300	0	0	300	0	0
,, 31	Cash . .. . Dr To Soleil d'Or (19.), Ltd .. .. Being the cash portion of the purchase consideration as per Reconstruction Scheme	9 23	5,300	0	0	5,300	0	0
,, 31	Sundries Dr. Sundry Creditors .. .. Bills Payable .. .. To Cash . .. . For cash paid in discharge of the company's liabilities as per Reconstruction Scheme and costs of Reconstruction Scheme.	15 17 9	3,300 2,000	0 0	0 0	 5,300	 0	 0
,, 31	Share Capital Account (old company) Dr To Sundries:— Profit and Loss Account .. .. . Realisation Account . . .. Being balance at the debit of the company's Profit and Loss Account at the date of reconstruction and the loss on the transfer of the company's business to the new company	13 11 19	30,000	0	0	 20,000 10,000	 0 0	 0 0
, 31	Share Capital Account . .. .. Dr. To Shares in New Company . . Being distribution of shares received as consideration among the members (fourteen shares of £1, 10s paid for each ten £1 shares)	13 21	70,000	0	0	70,000	0	0

LEDGER

1 LAND AND BUILDINGS ACCOUNT. 1

DR. CR

			£	s	d.				£	s	d.
19. Dec. 31	To Balance ..	√	45,000	0	0	19... Dec. 31	By Realisation Account	J	45,000	0	0

3 MACHINERY AND PLANT ACCOUNT, 3

DR CR

			£	s	d				£	s	d.
19. Dec. 31	To Balance ..	√	24,000	0	0	19. Dec 31	By Realisation Account	J.	24,000	0	0

5 SUNDRY DEBTORS. 5

DR CR.

			£	s	d				£	s.	d
19 Dec 31	To Balance ..	√	10,000	0	0	19. Dec. 31	By Realisation Account .	J.	10,000	0	0

7 STOCK IN HAND. 7

DR CR

			£	s	d.				£	s.	d.
19 Dec 31	To Balance ..	√	5,000	0	0	19 Dec 31	By Realisation Account ..	J	5,000	0	0

9 CASH AT BANK. **9**

Dr.			£	s.	d.				£	s.	d. Cr.
19. Dec. 31	To Balance ..	√	1,000	0	0	19.. Dec. 31	By Realisation Account .	J.	1,000	0	0
,, 31	,, Soleil d'Or (19.), Ltd., Balance of Purchase Consideration ..	J.	5,300	0	0	,, 31	,, Sundry Creditors	J.	3,300	0	0
							,, Bills Payable	J.	2,000	0	0
			£6,300	0	0				£6,300	0	0

11 PROFIT AND LOSS ACCOUNT. **11**

Dr.			£	s.	d.				£	s.	d. Cr.
19... Dec. 31	To Balance ..	√	20,000	0	0	19.. Dec. 31	By Share Capital Account (old company) .	J.	20,000	0	0

13 SHARE CAPITAL ACCOUNT. **13**

Dr.			£	s.	d.				£	s.	d. Cr.
19 .. Dec. 31	To Profit and Loss Account (debit balance transferred)	J	20,000	0	0	19.. Dec 31	By Balance .	√	100,000	0	0
,, 31	,, Realisation Account (loss on realisation)	J	10,000	0	0						
,, 31	,, Balance carried down ..	√	70,000	0	0						
		£	100,000	0	0			£	100,000	0	0
19... Dec. 31	To Shares in New Company .	J.	70,000	0	0	19... Dec. 31	By Balance brought down	√	70,000	0	0

15 SUNDRY CREDITORS. **15**

Dr.			£	s.	d.				£	s.	d. Cr.
19... Dec. 31	To Cash	CB	3,300	0	0	19 Dec. 31	By Balance	√	3,000	0	0
						,, 31	,, Costs of Realisation	J.	300	0	0
			£3,300	0	0				£3,300	0	0

17 BILLS PAYABLE. **17**

Dr.			£	s.	d.				£	s.	d. Cr.
19 .. Dec. 31	To Cash	C B.	2,000	0	0	19.. Dec 31	By Balance .	√	2,000	0	0

19 REALISATION ACCOUNT. **19**

Dr.			£	s.	d.				£	s.	d. Cr.
19 .. Dec. 31	To Sundry Assets	J.	85,000	0	0	19... Dec. 31	By Soleil d'Or (19..), Ltd. (Purchase Price)	J.	75,300	0	0
,, 31	,, Sundry Creditors .. .	J	300	0	0	,, 31	,, Share Capital Account ..	J	10,000	0	0
			£85,300	0	0				£85,300	0	0

21 SHARES IN NEW COMPANY. 21

Dr.			£	s.	d.				£	s.	d.	Cr.
19 .. Dec. 31	To Sundries 140,000 shares 10s paid in Soleil d'Or (19), Ltd ..	J	70,000	0	0	19 . Dec. 31	By Share Capital Account—distribution of shares .. .	J	70,000	0	0	

23 SOLEIL D'OR (19..), LIMITED (NEW COMPANY). 23

Dr.			£	s.	d.				£	s.	d.	Cr.
19. Dec. 31	To Sundries (agreed Purchase Price of old company	J.	75,300	0	0	19... Dec 31	By Sundries (shares issued to old company as Part Purchase Consideration)	J.	70,000	0	0	
						„ 31	„ Cash (Balance of Purchase Consideration)	C B	5,300	0	0	
			£75,300	0	0				£75,300	0	0	

AMALGAMATION.

An amalgamation of the interests and assets of two companies involves the liquidation of both companies, and the formation of a new company to take over the combined venture. In these days, in the majority of cases, an amalgamation is usually concerned with the combination of a number of businesses in the same, or allied, trades into one large corporation.

The advantages claimed for such amalgamations are usually: (1) economy in working expenses, e.g. the expenses of management, advertising, and travellers; (2) the elimination of competition; (3) the enlargement of the share capital of the combining companies and the resettlement of their Articles, so that a Stock Exchange quotation and, consequently, a better market for the shares may be obtained.

It may, of course, happen that, in an amalgamation of two or more companies, one of the companies possesses ample powers in its Memorandum, and an amount of unissued capital sufficiently large to admit of the transaction being carried through without the formation of a new company. In such cases, however, the transaction differs in no sense from an ordinary purchase or absorption.

In practice, the settlement of the many points inseparable from negotiations for amalgamation is one of the most difficult tasks which falls to the lot of the accountant. The chief difficulty arises from the differing bases upon which the assets of the negotiating companies have been valued, and in discovering a basis, acceptable to all parties, on which they can be revalued. If the book values of the assets of the parties to the amalgamation are not accepted, they must first be agreed in detail, and a fresh Balance Sheet for each company must be prepared upon the agreed basis. Such adjustment of asset values will result in a profit or

loss, probably the latter, which must be adjusted in the realisation accounts of each individual company, as demonstrated in the previous illustration. The accounts now under discussion, however, have no concern with such adjustments. The book-keeping entries recording the amalgamation must start with the revised and agreed Balance Sheets of the parties to the amalgamation.

Illustration.—Rayon d'Or, Ltd., and Soleil d'Or, Ltd., have agreed to amalgamate. A new company, Soleil d'Angers, Ltd , has been formed to take over the combined concern as on December 31, 19... After negotiation, the assets of the two companies have been agreed, as shown in the following revised Balance Sheets:—

RAYON D'OR, LIMITED.

BALANCE SHEET, DECEMBER 31, 19...

LIABILITIES.	£	s	d.	ASSETS.	£	s	d.
Issued Capital—				Land and Buildings	50,000	0	0
100,000 Ordinary Shares of £1 each, fully paid .. .	100,000	0	0	Machinery and Plant	20,000	0	0
Sundry Creditors . . .	8,000	0	0	Patents	11,000	0	0
Profit and Loss Account (undistributed balance) .	5,000	0	0	Stock	15,000	0	0
				Sundry Debtors	12,000	0	0
				Cash at Bank	5,000	0	0
£	113,000	0	0	£	113,000	0	0

SOLEIL D'OR, LIMITED.

BALANCE SHEET, DECEMBER 31, 19...

LIABILITIES.	£	s	d	ASSETS.	£	s.	d
Issued Capital—				Goodwill	5,000	0	0
50,000 Ordinary Shares of £1 each, fully paid .	50,000	0	0	Land and Buildings ..	30,000	0	0
Sundry Creditors	5,000	0	0	Machinery and Plant . ..	25,000	0	0
Reserve Fund	5,000	0	0	Stock	2,000	0	0
Profit and Loss Account (undistributed balance) ..	5,000	0	0	Sundry Debtors	2,000	0	0
				Cash at Bank	1,000	0	0
	£65,000	0	0		£65,000	0	0

As it has been agreed that the new company is to take over the two companies upon the above basis, the capital of the new company, to be issued as fully paid to the two sets of shareholders, will be as follows:—

	Total Assets £	Liabilities. £	Net Assets £
Rayon d'Or, Ltd.	113,000	8,000	105,000
Soleil d'Or, Ltd.	65,000	5,000	60,000
			£165,000

The capital to be issued as fully paid, therefore, amounts to £165,000, divided as above. The Soleil d'Or shareholders will receive six shares for every five held by them in the old company, and the Rayon d'Or shareholders will receive one and one-twentieth shares for every share in the old company. In practice, there are always fractions of shares which cannot be allotted. The total shares not capable of accurate allotment are therefore disposed of, and the proceeds are divided proportionately amongst the shareholders entitled to the fractions not capable of allotment.

The initial Balance Sheet of the new company will appear as follows:—

SOLEIL D'ANGERS, LIMITED.

BALANCE SHEET, DECEMBER 31, 19...

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Issued Capital—				Goodwill at cost	5,000	0	0
165,000 Ordinary Shares of £1 each, issued as fully paid	165,000	0	0	Land and Buildings at cost .	80,000	0	0
Sundry Creditors	13,000	0	0	Machinery and Plant at cost	45,000	0	0
				Patents	11,000	0	0
				Stock	17,000	0	0
				Sundry Debtors	14,000	0	0
				Cash at Bank	6,000	0	0
£	178,000	0	0	£	178,000	0	0

The above illustration is designedly primitive, since the introduction of some of the complications which in practice occur in transactions of the kind would tend to obscure the principle it is intended to illustrate.

ABSORPTION.

Another form of amalgamation, sometimes referred to as *absorption*, takes place when a large company, with sufficient powers, resources and unissued share capital to carry out the transaction, takes over the business of a smaller venture. The same reasons which usually render amalgamation desirable in other circumstances apply also in these, viz. to reduce expenses and secure an increased turnover, so that the profits of the combined venture may be superior to the sum of the profits of the separate undertakings. A transaction of this kind may involve either a profit or a loss to the smaller company, according to whether the price paid by the purchasing company for the assets of the vendor company is greater or less than the values at which they stand in the vendor's books.

Illustration.—Rayon d'Or, Ltd., agrees to "absorb" the business of Soleil d'Or, Ltd., as on December 31, 19... Rayon d'Or, Ltd., is to pay the liabilities of Soleil d'Or, Ltd., and the expenses of the absorption (£1,000), and to take over the assets at their Balance Sheet values, in exchange for which it is to issue twelve shares of £1 each for every share of £10 in Soleil d'Or, Ltd. The Balance Sheets of the two companies were as follows :—

SOLIEL D'OR, LIMITED.

BALANCE SHEET, DECEMBER 31, 19...

LIABILITIES	£	s.	d.	ASSETS	£	s.	d.
Capital—				Land and Buildings	30,000	0	0
5,000 Ordinary Shares of £10 each, fully paid ..	50,000	0	0	Machinery and Plant	20,000	0	0
Sundry Creditors .. £6,800				Sundry Debtors	5,000	0	0
Bills Payable 4,200	11,000	0	0	Stock in hand	2,500	0	0
				Cash at Bank	3,500	0	0
	£61,000	0	0		£61,000	0	0

RAYON D'OR, LIMITED.

BALANCE SHEET, DECEMBER 31, 19...

LIABILITIES.	£	s.	d.	ASSETS	£	s.	d.
Capital—				Goodwill	10,000	0	0
Nominal. 200,000 Ordinary Shares of £1 each .. £200,000				Land and Buildings	50,000	0	0
				Machinery and Plant	30,000	0	0
				Stock in hand	6,000	0	0
				Sundry Debtors	12,000	0	0
Issued 100,000 Ordinary Shares of £1 each, fully paid	100,000	0	0	Cash at Bank	10,000	0	0
Reserve Account .. .	10,000	0	0	Profit and Loss Account (Balance)	4,000	0	0
Sundry Creditors	12,000	0	0				
£	122,000	0	0	£	122,000	0	0

The entries in the books of Rayon d'Or, Ltd., are as follows:—

RAYON D'OR, LIMITED.

1 SUNDRY ASSETS. 1

DR.			£	s.	d.				£	s.	d. CR.
19... Dec. 31	To Balances of Sundry Asset Accounts of Company as per Balance Sheet (other than Cash and Goodwill, but including Profit and Loss Account) .	√	102,000	0	0						
	,, Sundry Assets (Soleil d'Or, Ltd.) other than Cash ..	J.	57,500	0	0						
		£	159,500	0	0						

In practice, separate accounts would exist for each asset—but they have been summarised here for simplicity.

3 SHARE CAPITAL ACCOUNT. 3

DR.			£	s.	d.				£	s.	d. CR.
						19.. Dec. 31	By Balance .	√	100,000	0	0
						,, 31	,, 60,000 fully paid shares issued as Purchase Price of Soleil d'Or, Ltd	J	60,000	0	0
								£	160,000	0	0

5 RESERVE ACCOUNT. 5

DR.			£	s.	d.				£	s.	d. CR.
						19.. Dec. 31	By Balance ..	√	10,000	0	0

7 **Goodwill Account** 7

Dr.			£	s.	d.				£	s.	d. Cr.
19... Dec 31	To Balance (Rayon d'Or, Ltd.) ..	✓	10,000	0	0						
„ 31	„ Soleil d'Or, Ltd.	J.	10,000	0	0						
			£20,000	0	0						

9 **Sundry Creditors.** 9

Dr.			£	s.	d.				£	s.	d. Cr.
						19... Dec. 31	By Balance (Rayon d'Or, Ltd)	✓	12,000	0	0
							„ Sundries (Soleil d'Or, Ltd)	J	11,000	0	0
									£23,000	0	0

11 **Soleil d'Or, Limited.** 11

Dr.			£	s.	d.				£	s.	d. Cr.
19 . Dec 31	To Fully Paid Shares .. .	J.	60,000	0	0	19 Dec 31	By Sundry Assets	J	61,000	0	0
	„ Sundry Liabilities .. .	J	11,000	0	0		„ Goodwill Account	J.	10,000	0	0
			£71,000	0	0				£71,000	0	0

13 **Amalgamation Expenses Account.** 13

Dr.			£	s.	d.				£	s.	d. Cr.
19 . Dec 31	To Cash	C.B	1,000	0	0						

15 **CASH BOOK.** 15

Dr.			£	s.	d.				£	s.	d. Cr.
19. . Dec 31	To Balance ..	✓	10,000	0	0	19. Dec. 31	By Amalgamation Expenses	13	1,000	0	0
„ 31	„ Cash (Soleil d'Or)	C B	3,500	0	0	„ 31	„ Balance carried down ..	✓	12,500	0	0
			£13,500	0	0				£13,500	0	0
19... Dec 31	To Balance brought down	✓	12,500	0	0						

BALANCE SHEET.

(Of Combined Companies)

Liabilities.		£	s	d
Capital—				
Nominal 200,000 shares of £1 each	£200,000			
Issued 160,000 shares of £1 each fully paid		160,000	0	0
Reserve Account		10,000	0	0
Sundry Creditors—				
Rayon d'Or, Ltd.	£12,000			
Soleil d'Or, Ltd.	11,000	23,000	0	0
	£	193,000	0	0

Assets	£	£	s	d
Goodwill—				
Rayon d'Or, Ltd.	10,000			
Soleil d'Or, Ltd	10,000	20,000	0	0
Land and Buildings—				
Rayon d'Or, Ltd	50,000			
Soleil d'Or, Ltd	30,000	80,000	0	0
Machinery and Plant				
Rayon d'Or, Ltd	30,000			
Soleil d'Or, Ltd.	20,000	50,000	0	0
Stock in hand—				
Rayon d'Or, Ltd.	6,000			
Soleil d'Or, Ltd	2,500	8,500	0	0
Sundry Debtors—				
Rayon d'Or, Ltd.	12,000			
Soleil d'Or, Ltd.	5,000	17,000	0	0
Cash at Bank—				
Rayon d'Or, Ltd	9,000			
Soleil d'Or, Ltd	3,500	12,500	0	0
Profit and Loss Account— Rayon d'Or, Ltd		4,000	0	0
Amalgamation Expenses Account		1,000	0	0
	£	193,000	0	0

Note —In practice, the names of the companies would not be shown, merely the totals; they have been shown above to make it quite clear to the student how the totals are arrived at. If the Balance Sheet is to be laid before a General Meeting, the bases of valuation of the fixed assets must be shown.

RAYON D'OR, LIMITED.

JOURNAL.

	L F	£	s	d	£	s	d
Sundry Assets Dr							
Land and Buildings	1	30,000	0	0			
Machinery and Plant		20,000	0	0			
Sundry Debtors		5,000	0	0			
Stock in hand		2,500	0	0			
Cash at Bank	15	3,500	0	0			
To Soleil d'Or, Ltd	11				61,000	0	0
For sundry assets taken over from the liquidator as per contract, dated December 20, 19 ..							
Soleil d'Or, Ltd .. Dr	11	60,000	0	0			
To Fully Paid Share Capital Account	3				60,000	0	0
Being 60,000 shares of £1 each, fully paid, allotted to the Shareholders in Soleil d'Or, Ltd., as purchase price of the Company's business as per contract, dated December 20, 19 .							
Amalgamation Expenses Account * Dr.	13	1,000	0	0			
To Cash	15				1,000	0	0
Being costs of amalgamation.							
Soleil d'Or, Ltd. Dr	11	11,000	0	0			
To Sundry Creditors	9				6,800	0	0
,, Bills Payable	9				4,200	0	0
For discharge of sundry liabilities taken over.							
Goodwill Account Dr	7	10,000	0	0			
To Soleil d'Or, Ltd	11				10,000	0	0
Being amount representing Goodwill included in the purchase.							

* This item should be written off in due course.

The closing entries in the Journal of Soleil d'Or, Ltd , will appear as shown below. When these entries have been posted in the Ledger, the only accounts remaining open will be "Share Capital Account," Cr. £50,000; "Realisation Account" (Profit), Cr. £10,000; and "Rayon d'Or, Ltd., Fully Paid Shares Account," Dr. £60,000 The distribution of these shares amongst the Soleil d'Or shareholders will complete the transaction, and the accounts will then be closed by a further journal entry.

SOLEIL D'OR, LIMITED.

JOURNAL.

	L F	£	s	d	£	s.	d
Realisation Account .. .. Dr.		61,000	0	0			
To Sundries							
Land and Buildings					30,000	0	0
Machinery and Plant					20,000	0	0
Sundry Debtors					5,000	0	0
Stock in hand					2,500	0	0
Cash at Bank					3,500	0	0
Being assets transferred to Rayon d'Or, Ltd., as per contract for sale, dated December 20, 19..							
Sundries Dr.							
Sundry Creditors		6,800	0	0			
Bills Payable		4,200	0	0			
To Realisation Account . .					11,000	0	0
For liabilities taken over by Rayon d'Or, Ltd., as per contract for Sale, dated December 20, 19...							
Rayon d'Or, Ltd , Fully Paid Shares Account . . . .. Dr.		60,000	0	0			
To Realisation Account					60,000	0	0
For fully paid shares issued by Rayon d'Or, Ltd , as per terms of the contract for Sale							

Arrangements and Reconstructions.

Very important provisions are contained in SS. 153 and 154 for allowing a company to come to an arrangement or compromise with its members and/or creditors, where it is desired to modify the rights of such persons. S. 155 contains provisions for facilitating reconstructions, etc These provisions are worthy of serious study, and are therefore given hereunder *in extenso:—*

Power to compromise with Creditors and Members.

By S. 153.—(1) Where a compromise or arrangement is proposed between a company and its creditors or any class of them, or between the company and its members or any class of them, the court may, on the application in a summary way of the company or of any creditor or member of the company, or, in the case of a company being wound up, of the liquidator, order a meeting of the creditors or class of creditors, or of the members of the company or class of members, as the case may be, to be summoned in such manner as the court directs

(2) If a majority in number representing three-fourths in value of the creditors or class of creditors, or members or class of members, as the case may be, present and voting either in person or by proxy at the meeting, agree to any compromise or arrangement, the com-

promise or arrangement shall, if sanctioned by the court, be binding on all the creditors or the class of creditors, or on the members or class of members, as the case may be, and also on the company, or in the case of a company in the course of being wound up, on the liquidator and contributories of the company.

(3) An order made under subsection (2) of this section shall have no effect until an office copy of the order has been delivered to the registrar of companies for registration, and a copy of every such order shall be annexed to every copy of the memorandum of the company issued after the order has been made, or, in the case of a company not having a memorandum, of every copy so issued of the instrument constituting or defining the constitution of the company.

(4) If a company makes default in complying with subsection (3) of this section, the company and every officer of the company who is in default shall be liable to a fine not exceeding one pound for each copy in respect of which default is made.

(5) In this section the expression "company" means any company liable to be wound up under this Act, and the expression "arrangement" includes a reorganisation of the share capital of the company by the consolidation of shares of different classes or by the division of shares into shares of different classes or by both those methods

Provisions for facilitating Reconstruction and Amalgamation of Companies.

By S 154.—(1) Where an application is made to the court under the last foregoing section of this Act for the sanctioning of a compromise or arrangement proposed between a company and any such persons as are mentioned in that section, and it is shown to the court that the compromise or arrangement has been proposed for the purposes of, or in connection with, a scheme for the reconstruction of any company or companies or the amalgamation of any two or more companies, and that under the scheme the whole or any part of the undertaking or the property of any company concerned in the scheme (in this section referred to as "a transferor company") is to be transferred to another company (in this section referred to as the "transferee company"), the court may, either by the order sanctioning the compromise or arrangement or by any subsequent order, make provision for all or any of the following matters:

(*a*) the transfer to the transferee company of the whole or any part of the undertaking and of the property or liabilities of any transferor company;

(*b*) the allotting or appropriation by the transferee company of any shares, debentures, policies, or other like interests in that company which under the compromise or arrangement are to be allotted or appropriated by that company to or for any person;

(*c*) the continuation by or against the transferee company of any legal proceedings pending by or against any transferor company;

(*d*) the dissolution, without winding up, of any transferor company;

(*e*) the provision to be made for any persons, who within such time, and in such manner as the court direct, dissent from the compromise or arrangement,

(*f*) such incidental, consequential and supplemental matters as are necessary to secure that the reconstruction or amalgamation shall be fully and effectively carried out.

(2) Where an order under this section provides for the transfer of property or liabilities, that property shall, by virtue of the order, be transferred to and vest in, and those liabilities shall, by virtue of the order, be transferred to and become the liabilities of, the transferee company, and in the case of any property, if the order so directs, freed from any charge which is by virtue of the compromise or arrangement to cease to have effect.

(3) Where an order is made under this section, every company in relation to which the order is made shall cause an office copy thereof to be delivered to the registrar of companies for registration within seven days after the making of the order, and if default is made in complying with this subsection, the company and every officer of the company who is in default shall be liable to a default fine.

(4) In this section the expression "property" includes property, rights and powers of every description, and the expression "liabilities" includes duties.

(5) Notwithstanding the provisions of subsection (5) of the last foregoing section, the expression "company" in this section does not include any company other than a company within the meaning of this Act.

Power to acquire Shares of Shareholders dissenting from Scheme or Contract approved by Majority.

By S. 155.—(1) Where a scheme or contract involving the transfer of shares or any class of shares in a company (in this section referred to as "the transferor company") to another company, whether a company within the meaning of this Act or not (in this section referred to as "the transferee company"), has within four months after the making of the offer in that behalf by the transferee company been approved by the holders of not less than nine-tenths in value of the shares affected, the transferee company may, at any time within two months after the expiration of the said four months, give notice in the prescribed manner to any dissenting shareholder that it desires to acquire his shares, and where such a notice is given the transferee company shall, unless on an application made by the dissenting shareholder within one month from the date on which the notice was given the court thinks fit to order otherwise, be entitled and bound to acquire those shares on the terms on which under the scheme or contract the shares of the approving shareholders are to be transferred to the transferee company:

Provided that, where any such scheme or contract has been so

approved at any time before the commencement of this Act, the court may by order, on an application made to it by the transferee company within two months after the commencement of this Act, authorise notice to be given under this section at any time within fourteen days after the making of the order, and this section shall apply accordingly, except that the terms on which the shares of the dissenting shareholder are to be acquired shall be such terms as the court may by the order direct instead of the terms provided by the scheme or contract.

(2) Where a notice has been given by the transferee company under this section and the court has not, on an application made by the dissenting shareholder, ordered to the contrary, the transferee company shall, on the expiration of one month from the date on which the notice has been given, or, if an application to the court by the dissenting shareholder is then pending, after that application has been disposed of, transmit a copy of the notice to the transferor company and pay or transfer to the transferor company the amount or other consideration representing the price payable by the transferee company for the shares which by virtue of this section that company is entitled to acquire, and the transferor company shall thereupon register the transferee company as the holder of those shares.

(3) Any sums received by the transferor company under this section shall be paid into a separate bank account, and any such sums and any other consideration so received shall be held by that company on trust for the several persons entitled to the shares in respect of which the said sums or other consideration were respectively received.

(4) In this section the expression "dissenting shareholder" includes a shareholder who has not assented to the scheme or contract and any shareholder who has failed or refused to transfer his shares to the transferee company in accordance with the scheme or contract.

Conversion of Established Business into a Limited Company.

The advantages secured by converting a private business into a limited company have already been touched upon (see p. 202), but they may be repeated and amplified

(1) The substitution of the limited liability of the shareholder for the unlimited liability of the partner. Though a partner may limit his liability under the *Limited Partnership Act*, 1907, the limitation can only be secured by renouncing all part in the management of the business, a handicap from which the shareholder in a limited company is free.

(2) A shareholder in a limited company can bequeath his holding, in any proportion, to whomsoever he pleases without disturbing the financial arrangements of the business, and the beneficiaries may assume control of the business without incurring unlimited liability. In family companies, death duties are some-

times avoided by a distribution of shares *inter vivos*.* Whatever may be the morality of such a distribution, it will hold good, so far as liability for death duty is concerned, if it is made not less than three years prior to the death of the former owner and is an absolute gift, no interest in the shares being reserved to the donor.

(3) A partnership is dissolved by the death of a partner, though provision is usually made in the partnership deed for the continuance of the business and the payment out of the deceased partner's interest. These inconveniences do not attach to a limited company, since a company is under no obligation to repay capital, and, being an entity separate from its membership, is unaffected by the death of its members, whose shares pass to those entitled to succeed the deceased members. On the other hand, the death of a sole trader frequently precludes his heirs from having any connection with the business, no matter how prosperous it may be; for though his executors may be empowered to carry on the business, they are, as a rule, unwilling to do so, because of the personal risks they would incur.

(4) The bankruptcy of a shareholder does not affect a company, but the bankruptcy of a partner does adversely affect a partnership, since the partnership is then dissolved.

(5) A company can usually raise fresh funds more easily than a partnership. If new ordinary share capital cannot be issued, it may be possible to place preference shares with prior rights, or to issue debentures by creating a charge on the assets. But sole traders or partnership firms requiring loans must fall back upon personal security, either their own or that of others, failing which there is nothing left but to issue a mortgage or a bill of sale, with paralysing effect both on the property and the credit of the firm.

(6) In some circumstances the proprietor of a business can dispose of it more easily and at a better price to a limited company than he could to a private purchaser; or, if he should desire that the business be carried on for the benefit of his dependents, he can readily accomplish his purpose as a company, but only with difficulty and risk as a private concern.

(7) There is no limit to the membership of a limited company, except in "private" companies, and even then the limit is sufficiently wide. The statutory limit to a partnership is twenty persons, and, if the business be banking, ten persons.

(8) The protection afforded by the principle of limited liability permits the employees of a company to be admitted to a share in the management and profits of the business by the gift or sale of shares to them. This has been frequently and successfully followed in the case of the management staff, but it is open to question whether the practice has proved equally successful when extended to workmen. One large and well-known firm, after extensive

* The provisions of SS. 34–38, *Finance Act*, 1930, should be referred to in cases where private estates have been converted into companies and the "vendor" of the property reserves benefits to himself, since these provisions prevent the entire avoidance of liability for Estate Duty in such cases.

experiment, abandoned the practice, and now issues certificates to its workmen, carrying profit-sharing rights only, without capital rights or representation. Such certificates are unsaleable, and are of value to the holder only so long as he is employed by the company.

(9) Audit of the accounts once a year is compulsory in the case of a limited company (S. 132).

When conversion is decided upon, the amount of the nominal capital to be registered must be fixed. It will be wise to leave a margin of unissued capital for future needs, over and above the capital necessary to discharge the purchase consideration. The amount of the goodwill (if any) must also be agreed, as the amount decided upon will be added to the assets and satisfied by the issue of fully paid shares. Having decided upon the purchase consideration, and what it is to include, and the amount of working capital desirable, the manner in which the purchase consideration is to be discharged must be determined, i e. the shares, ordinary and/or preference, the debentures, and the cash to be handed to the vendors in settlement of the transfer.

The last Balance Sheet of the partnership will, as a general rule, form the basis of the conversion. If the book values of the assets are accepted as they stand, and no goodwill account is to be created, the conversion will be a simple matter so far as the book-keeping is concerned. But the formation of a company is frequently utilised as a convenient occasion to adjust the book values of the assets, either by way of appreciation or depreciation, and to create a goodwill account. Sometimes also, in order to minimise stamp duties, the limited company does not take over the book debts or the liabilities, which are collected and paid respectively by the company on behalf of the vendors When the consideration exceeds £500, stamp duty will be payable at the rate of £1 for every £100 on the transfer of the assets which are not capable of delivery otherwise than as *choses in action* If the consideration is less than £500, the duty is 10s per £100. In the great majority of conversions the company is registered as a private company, the partners in the old firm being frequently nominated in the Articles of Association as permanent directors of the new company.

The various steps necessary for the formation of a limited company have been described in detail in the previous chapter. From the book-keeper's point of view the work very closely resembles that already described in the case of the purchase of a business. The first essentials are (1) a copy of the last Balance Sheet of the firm; (2) a statement showing the basis upon which the assets are to be taken over and the liabilities discharged by the company, and (3) particulars of the purchase consideration to be paid and the form in which it is to be satisfied.

Illustration.—Messrs Goodwin, McArthur, and Ravary, an old-established firm, decided to convert their business into a limited company, as on December 31, 19... The profits have been shared equally between the three partners The Company was duly registered in the name of Goodwins, Ltd, and took over the business as on January 1st in the following year. The following details were agreed, and, where necessary, embodied in the contract for sale :—

(1) The nominal capital of the new company was fixed at £100,000 in 100,000 shares of £1 each.

(2) The assets of the old firm were taken over at their book values, with the exception of the patents, which were taken over at £1,000.

(3) The company agreed to pay £10,000, in fully paid shares, for the goodwill of the business.

(4) The Company was to discharge the liabilities and collect the book debts of the old firm. Any difference between these amounts was to be adjusted in cash, each partner paying his share of the deficiency.

(5) The whole of the purchase price was to be discharged by the allotment of fully paid shares to the vendors.

In the following illustration it has been assumed that all the above transactions were completed as on December 31, 19...
Formation expenses have been ignored.

GOODWIN, McARTHUR, AND RAVARY.

BALANCE SHEET, DECEMBER 31, 19...

Liabilities.		£	s	d	Assets.	£	s.	d.
Capital—					Land and Buildings	30,000	0	0
A R. Goodwin	£20,000				Machinery and Plant	14,000	0	0
G. McArthur .	18,000				Patents Account . ..	2,000	0	0
M Ravary . ..	16,000				Stock in hand	8,000	0	0
		54,000	0	0	Sundry Debtors	10,000	0	0
Sundry Creditors ..	£8,500				Cash at Bank	1,000	0	0
Bills Payable	2,500							
		11,000	0	0				
		£65,000	0	0		£65,000	0	0

GOODWINS, LIMITED.

JOURNAL.

19		L F.	£	s.	d	£	s.	d
Dec 31	Sundry Assets Dr	13				54,000	0	0
	To Vendors							
	Land and Buildings	1	30,000	0	0			
	Machinery and Plant	3	14,000	0	0			
	Patents Account	5	1,000	0	0			
	Stock in hand	7	8,000	0	0			
	Cash at Bank	C.B.1	1,000	0	0			
	Being the assets of the old firm taken over by the Company as per Contract for Sale, dated December 20, 19. .							
„ 31	Goodwill Account .. .. Dr.	L F. 11	10,000	0	0			
	To Vendors	13				10,000	0	0
	Being agreed purchase price of the goodwill of the old firm as per Contract for Sale.							
„ 31	Vendors .. .. Dr.	13	64,000	0	0			
	To Share Capital Account ..	15				64,000	0	0
	Being 64,000 shares of £1 each, fully paid, in discharge of the purchase price of the business as per Contract for Sale							
„ 31	Sundry Debtors .. .. Dr.	9	10,000	0	0			
	To Vendors	13				10,000	0	0
	Being outstanding debts of the old firm to be collected by the Company							
„ 31	Vendors .. . . Dr.	13	11,000	0	0			
	To Sundry Creditors	17				8,500	0	0
	„ Bills Payable	19				2,500	0	0
	Being outstanding liabilities of the old firm to be discharged by the Company.							

LEDGER.

1 LAND AND BUILDINGS. **1**

Dr.									Cr.		
19...			£	s.	d				£	s	d.
Dec 31	To Sundries .	J.	30,000	0	0						

3 MACHINERY AND PLANT. **3**

Dr									Cr		
19.			£	s	d				£	s	d.
Dec 31	To Sundries .	J.	14,000	0	0						

5 PATENTS ACCOUNT. **5**

Dr									Cr		
19.			£	s	d				£	s	d.
Dec. 31	To Sundries .	J.	1,000	0	0						

7 STOCK IN HAND. **7**

Dr									Cr		
19 .			£	s	d.				£	s	d.
Dec. 31	To Sundries .	J	8,000	0	0						

9 SUNDRY DEBTORS. **9**

Dr.									Cr.		
19 .			£	s.	d	19			£	s	d.
Dec 31	To Vendors Amounts due to old firm .		10,000	0	0	Dec 31	By Cash	1	10,000	0	0

11 GOODWILL ACCOUNT. **11**

Dr									Cr		
19...			£	s	d				£	s	d
Dec. 31	To Vendors	J.	10,000	0	0						

13 VENDORS' ACCOUNT. **13**

Dr.									Cr		
19			£	s	d.	19...			£	s	d.
Dec. 31	To Share Capital Account .	J	64,000	0	0	Dec 31	By Sundry Assets	J	54,000	0	0
" 31	" Sundry Liabilities . . .	J	11,000	0	0	" 31	" Goodwill ..	J.	10,000	0	0
						" 31	" Sundry Debtors ..	J.	10,000	0	0
						" 31	" Cash (excess of Liabilities over Book Debts)	C B. 1	1,000	0	0
			£75,000	0	0				£75,000	0	0

15 **Share Capital Account.** 15

Dr.			£	s	d		Cr.		£	s	d
						19... Dec. 31	By Vendors ..	J	64,000	0	0

17 **Sundry Creditors.** 17

Dr.			£	s	d		Cr.		£	s.	d.
19 Dec. 31	To Cash	C.B. 2	8,500	0	0	19. Dec. 31	By Vendors (amounts owing by the old firm) ..	J.	8,500	0	0

19 **Bills Payable.** 19

Dr.			£	s.	d.		Cr.		£	s.	d.
19.. Dec. 31	To Cash	C B. 2	2,500	0	0	19 .. Dec. 31	By Vendors (amounts owing by the old firm) .	J.	2,500	0	0

1 **CASH BOOK.** 1

Dr.			£	s.	d.		Cr.	L.F.	£	s	d.
19.. Dec. 31	To Balance in hand taken over from old firm ..	J	1,000	0	0	19. Dec. 31	By Cash paid to Sundry Creditors of the old firm	17	8,500	0	0
" 31	" Cash collected from Sundry Debtors of the old firm .	L F 9	10,000	0	0	" 31	" Bills Payable met for Vendors .	19	2,500	0	0
" 31	" Cash (amount received from vendors to discharge the excess of liabilities over debts paid and collected respectively by the Company) ..	14	1,000	0	0	" 31	" Balance carried down ..	√	1,000	0	0
			£12,000	0	0				£12,000	0	0
19 Dec. 31	To Balance brought down	√	1,000	0	0						

BALANCE SHEET, DECEMBER 31, 19...

Liabilities	£	s	d	Assets.	£	s.	d.
Capital— *Nominal* · 100,000 shares of £1 each £100,000				Goodwill at cost	10,000	0	0
				Land and Buildings at cost ..	30,000	0	0
				Machinery and Plant at cost.	14,000	0	0
				Patents at cost .. .	1,000	0	0
Issued · 64,000 shares of £1 each fully paid	64,000	0	0	Stock in hand	8,000	0	0
				Cash at Bank	1,000	0	0
	£64,000	0	0		£64,000	0	0

In order to close the books of the old firm, a Realisation Account must be opened, as shown in previous illustrations, the entries taking the form common to the sale of a business.

GOODWIN, McARTHUR, AND RAVARY.

JOURNAL.

		L F.	£	s	d.	£	s.	d.
19.. Dec. 31	Realisation Account.. .. .. Dr.	15	55,000	0	0			
	To Sundries—							
	Land and Buildings	1				30,000	0	0
	Machinery and Plant	3				14,000	0	0
	Patents Account	5				2,000	0	0
	Stock in hand	7				8,000	0	0
	Cash at Bank	C B.1				1,000	0	0
	Being the book value of the assets as on December 31, 19 , sold to the Company as per Contract for Sale, dated December 20, 19. .							
		L.F.						
„ 31	Goodwins, Ltd .. .. Dr	25	64,000	0	0			
	To Realisation Account	15				64,000	0	0
	Being the agreed purchase consideration for the transfer of the business as per Contract for Sale							
„ 31	Shares in Goodwins, Ltd., Account .. Dr.	17	64,000	0	0			
	To Goodwins, Ltd	25				64,000	0	0
	Being 64,000 shares of £1 each issued as fully paid in discharge of purchase price of the business as per Contract for Sale							
„ 31	Realisation Account.. .. .. Dr.	15	9,000	0	0			
	To A. R. Goodwin	9				3,000	0	0
	„ G McArthur	11				3,000	0	0
	„ M. Ravary	13				3,000	0	0
	Being respective shares of the partners of the profit on sale of the business to the Company.							
, 31	Sundries .. .. Dr.							
	To Shares in Goodwins, Ltd., Account ..	17				64,000	0	0
	„ A R Goodwin	9	23,333	6	8			
	„ G. McArthur	11	21,333	6	8			
	„ M Ravary	13	19,333	6	8			
	For division of the purchase consideration for the sale of the business *							
„ 31	Sundry Creditors .. .. Dr.	19	8,500	0	0			
	Bills Payable .. .. Dr	23	2,500	0	0			
	To Goodwins, Ltd.	25				11,000	0	0
	Being sundry liabilities paid by the Company as per agreement.							
„ 31	Goodwins, Ltd. .. .. Dr	25	10,000	0	0			
	To Sundry Debtors	21				10,000	0	0
	Being sundry outstanding book debts collected by the Company as per agreement							

* The shares could not, of course, be actually divided in fractions of 6s 8d. A mutual arrangement would be made, such as :—

A. R. Goodwin	23,334 shares
G. McArthur	21,333 shares
M. Ravary..	19,333 shares
	64,000 shares

The difference in the holdings would be adjusted by a cash payment between the partners concerned.

LEDGER.

1 LAND AND BUILDINGS. 1

Dr.			£	s.	d.				£	s.	d. Cr.
19 . Dec. 31	To Balance ..	√	30,000	0	0	19.. Dec 31	By Realisation Account ..	J.	30,000	0	0

3 MACHINERY AND PLANT. 3

Dr.			£	s.	d.				£	s.	d. Cr.
19.. Dec. 31	To Balance ..	√	14,000	0	0	19 Dec. 31	By Realisation Account ..	J.	14,000	0	0

5 PATENTS ACCOUNT. 5

Dr.			£	s.	d.				£	s.	d. Cr.
19... Dec. 31	To Balance ..	√	2,000	0	0	19.. Dec. 31	By Realisation Account .	J.	2,000	0	0

7 STOCK IN HAND. 7

Dr.			£	s.	d.				£	s.	d. Cr.
19. . Dec. 31	To Balance ..	√	8,000	0	0	19... Dec 31	By Realisation Account	J.	8,000	0	0

9 A. R GOODWIN, CAPITAL ACCOUNT. 9

Dr.			£	s.	d.				£	s.	d. Cr.
19. . Dec. 31	To Shares ..	J.	23,333	6	8	19... Dec. 31	By Balance .	√	20,000	0	0
						,, 31	,, Cash paid in	C B 1	333	6	8
						,, 31	,, Share of profit on sale of business..	J.	3,000	0	0
			£23,333	6	8				£23,333	6	8

11 G. McARTHUR, CAPITAL ACCOUNT. 11

Dr.			£	s.	d.				£	s.	d. Cr.
19... Dec. 31	To Shares ..	J.	21,333	6	8	19 . Dec. 31	By Balance	√	18,000	0	0
						,, 31	,, Cash paid in	C B 1	333	6	8
						,, 31	,, Share of profit on sale of business..	J.	3,000	0	0
			£21,333	6	8				£21,333	6	8

13 **M. RAVARY, CAPITAL ACCOUNT.** 13

Dr.			£	s.	d.	Cr.			£	s.	d.
19 .. Dec 31	To Shares ..	J.	19,333	6	8	19 .. Dec 31	By Balance ..	√	16,000	0	0
						„ 31	„ Cash paid in	C B 1	333	6	8
						„ 31	„ Share of profit on sale of business..	J.	3,000	0	0
			£19,333	6	8				£19,333	6	8

15 **REALISATION ACCOUNT.** 15

Dr.			£	s.	d.	Cr.			£	s.	d.
19... Dec 31	To Sundry Assets .	J.	55,000	0	0	19. . Dec. 31	By Purchase Price ..	J.	64,000	0	0
„ 31	„ Balance carried down, being profit on sale of business ..	√	9,000	0	0						
			£64,000	0	0				£64,000	0	0
19 .. Dec. 31	To A. R. Goodwin ..	J	3,000	0	0	19... Dec 31	By Balance brought down	√	9,000	0	0
„ 31	„ G McArthur	J.	3,000	0	0						
„ 31	„ M Ravary	J	3,000	0	0						
			£9,000	0	0				£9,000	0	0

17 **SHARES IN GOODWINS, LIMITED, ACCOUNT.** 17

Dr.			£	s	d	Cr.			£	s.	d.
19 Dec. 31	To 64,000 fully paid shares of £1 each .	J	64,000	0	0	19 Dec 31	By A R. Goodwin . ..	J	23,333	6	8
						„ 31	„ G. McArthur	J	21,333	6	8
						„ 31	„ M. Ravary.	J.	19,333	6	8
			£64,000	0	0				£64,000	0	0

19 **SUNDRY CREDITORS.** 19

Dr.			£	s	d.	Cr.			£	s	d.
19 Dec. 31	To Goodwins, Ltd.	J.	8,500	0	0	19... Dec. 31	By Balance ..	√	8,500	0	0

21 **SUNDRY DEBTORS.** 21

Dr.			£	s	d	Cr.			£	s.	d.
19 .. Dec 31	To Balance ..		10,000	0	0	19... Dec. 31	By Goodwins, Ltd ..	J.	10,000	0	0

23 BILLS PAYABLE. 23

Dr.			£	s	d		Cr.		£	s	d.
19.. Dec 31	To Goodwins, Ltd	J	2,500	0	0	19. Dec. 31	By Balance ..	√	2,500	0	0

25 GOODWINS, LIMITED. 25

Dr			£	s	d		Cr		£	s	d.
19 . Dec' 31	To Purchase Price ..	J	64,000	0	0	19. Dec. 31	By Fully Paid Shares ..	J.	64,000	0	0
" 31	" Sundry Debtors	J	10,000	0	0	" 31	" Sundry Creditors 8,500	J			
" 31	" Balance carried down ..	√	1,000	0	0	" 31	" Bills Payable 2,500	J.	11,000	0	0
			£75,000	0	0				£75,000	0	0
19... Dec 31	To Cash	C B 2	1,000	0	0	19. . Dec. 31	By Balance brought down	√	1,000	0	0

1 CASH BOOK. 1

Dr			£	s	d		Cr		£	s	d.
19 . Dec 31	To Balance ..	√	1,000	0	0	19. Dec. 31	By Realisation Account .	J	1,000	0	0
	" Cash— A. R. Goodwin one-third excess of liabilities over book debts collected by Goodwins, Ltd. .	10	333	6	8	" 31	" Goodwins, Ltd.	25	1,000	0	0
	G. McArthur one-third excess of liabilities over book debts collected by Goodwins, Ltd. ..	2	333	6	8						
	M. Ravary one-third excess of liabilities over book debts collected by Goodwins, Ltd.	14	333	6	8						
			£2,000	0	0				£2,000	0	0

CONVERSION OF SHARES INTO STOCK

As previously remarked, S. 50, s -s. 1 (*c*), gives limited companies the power to convert fully paid shares into stock, if authorised by the Articles of Association, which usually stipulate that the power may be exercised by an ordinary resolution. The same section (50) also gives power to reconvert stock into shares. Notice

of the conversion, or reconversion, as the case may be, giving the date of the resolution and reference to the Article granting power to convert, must be sent to the Registrar within one month (S. 51, s.-s. 1). After such alteration every copy of the Memorandum of Association must be in accordance with the alteration (S. 24).

These powers are sometimes utilised by successful companies, the dealings in whose shares are very active, in order to benefit by the greater ease with which stock can be transferred as compared with shares bearing distinctive numbers. When the resolution to effect the conversion has been passed, and due notice of it has been given to the Registrar, the old share certificates must be called in and exchanged for the new stock certificates. Although most Government stocks can be transferred in fractional amounts, it is usual in the case of commercial companies to restrict transfers of stock to multiples of some round sum (e.g. £1, £5, etc.).

When stocks have been issued on various dates and conditions, they are sometimes conveniently consolidated or "unified" into one common stock (e.g. Canadian Pacific Railway 4% Consolidated Debenture Stock), bearing a uniform rate of interest, payable at fixed dates. If the unification has the effect of increasing the nominal capital of the company, *ad valorem* duty must be paid on the increase. The Annual Return must set out the amount of stock held by each member of the company, and the prescribed form of Return must be altered to suit the circumstances.

In addition to the necessary entries in the Register of Members, the old Share Capital Account must be debited with the amount of the capital converted into stock, and a new stock account opened and credited with a similar amount as follows:—

JOURNAL.

19 .		L. F.	£	s.	d	£	s	d
July 1	Six Per Cent. Preference Share Capital Account .. .. Dr.		200,000	0	0			
	To 6 % Preference Stock Account ..					200,000	0	0
	Being the conversion of 200,000 6 % Preference Shares of £1 each into 6 % Preference Stock as per special resolution, dated April 26, 19 .							

When a conversion of shares into stock takes place, it is usual to close the old Share Register and open a new Stock Register. This is most conveniently effected by means of a *Stock Conversion Journal*, in which the names and addresses of the old shareholders with full details of their holdings are set out. Against each holding is recorded the number of the new stock certificate issued, the amount of stock it represents, and the new Stock Register folio where the stockholders' account will be found.

Splitting Shares.

S. 50, s.-s. 1 (*d*) gives a limited company power to subdivide, or "split" its shares into shares of smaller denomination than

that originally fixed by the Memorandum of Association. This power is sometimes taken advantage of by successful companies whose shares have risen to a high premium, with the result that the shares have too high a value to be popular in their present denominations. Several well-known banking companies have split their original shares. An ordinary resolution is required, unless the Articles stipulate some other resolution. The proportion between the amount paid and the amount, if any, unpaid on each share must not be changed in the process of subdivision (S. 50, ss. 1 (*d*)).

The process of "splitting" shares is tiresome and expensive, but the entries involved in the financial books are of the simplest character, e.g.:—

JOURNAL.

		L.F.	£	s	d	£	s.	d.
19 . July 1	Ordinary Shares (£10) Account .. Dr.		300,000	0	0			
	To Ordinary Shares (£1) Account ..					300,000	0	0
	Being the conversion of the old Ordinary Share Capital of 30,000 shares of £10 each into new Ordinary Share Capital of 300,000 shares of £1 each as per resolution, dated April 26, 19. ..							

The work entailed by the conversion upon the Registrar's department of the company is, however, considerable if the shareholders are numerous. It will be necessary to call in all the old certificates in exchange for the new. To carry out this work efficiently, schedules should be prepared from the share registers, showing the names of the shareholders, particulars of their holdings, the distinctive numbers of the old shares, and the number of certificates handed in by them; and against these particulars full details of the new certificates issued in exchange should be recorded.

The Regulation of Railways Act, 1868 (S. 13), gives similar power to split its stock to any railway company that has paid a dividend of not less than 3 % on its ordinary stock for the year preceding the splitting. The Midland Railway, e.g., divided its stock into Preferred and Deferred Ordinary Stock in the year 1902.

In such cases the cash received from the issue of the capital remains unaltered. The old stock account is closed by the transfer of the credit balance, appropriately divided, to the two accounts representing the "split" stocks. If the operation involves any increase in the nominal capital of the undertaking, *ad valorem* duty must be paid on the amount of the increase. Assuming the operation to consist of the issue of £100 of Preferred and £100 of Deferred Stock, for every £100 of the original ordinary stock the entry will be:—

JOURNAL.

		L F.	£	s	d	£	s.	d
	Ordinary Stock Account		1,000,000	0	0			
	Do. Nominal Additions .. Dr.		1,000,000	0	0			
	To Preferred Ordinary Stock ..					1,000,000	0	0
	,, Deferred Ordinary Stock					1,000,000	0	0

The practical effect being, in this case, that the new stocks are issued at a discount of 50 %, and the nominal capital is doubled.

INTEREST PAID OUT OF CAPITAL.

The student has long ago absorbed the axiom that dividends cannot be paid out of capital, since to do so would amount to the repayment to the shareholders of a portion of the capital subscribed by them, whereas no return of capital is legal except under the particular conditions already described. Under certain circumstances, however, interest on shares may be paid out of capital during the construction of works. S. 54 provides that where any shares of a company are issued for the purpose of raising money to defray the expenses of the construction of works, or the provision of any plant which cannot be made profitable for a lengthened period, the company may pay interest on so much of that share capital as is for the time being paid up, and charge such interest to Capital as part of the cost of construction of the work or building, or the provision of plant, subject to the following conditions:—

(1) Such payments must be authorised by the Articles of Association, or by special resolution.

(2) They must also be authorised by the Board of Trade.

(3) The Board of Trade may hold an inquiry, at the company's expense, prior to giving its assent, and may require security for the amount of the costs of the inquiry.

(4) The payments may only be made for the period determined by the Board of Trade, and may in no case extend beyond the close of the half-year next after the half-year during which the works have been actually completed or the plant provided.

(5) The rate of interest shall in no case exceed 4 % per annum, or such other rate as may be prescribed by Order in Council. (*The Companies (Interest Out of Capital) Order*, 1929, fixed a maximum rate of interest of 6 per cent. per annum.)

(6) The payment of interest shall not operate as a reduction of the amount paid up on the shares in respect of which it is paid.

(7) The accounts of the company shall show the share capital on which, and the rate at which, interest has been paid out of capital during the period to which the accounts relate.

Of the very few applications made to the Board of Trade for powers under this section, about one-half on the average are refused.

Similar powers are frequently granted to certain Parliamentary companies such as dock, railway and harbour companies, but the terms on which the privilege may be exercised are determined by the special Act in each case. The *Indian Railways Act,* 1894, granted similar powers in connection with Indian railway construction.

It should not be necessary to defend the principle of allowing interest to be paid and charged to Capital Account in such circumstances. It is clear that capital expenditure on a large scale and extending over a long period involves the matter of interest as an additional cost. An independent contractor tendering for work would of course allow for interest when preparing his estimates. There can be no question that the real cost of public works such as these companies undertake is represented by the actual cost

of materials, labour, and supervision *plus* interest on the capital employed.

Table A, Art. 91, states that "No dividend shall be paid otherwise than out of profits" This clause is found in the Articles of most companies. But, with or without such a clause, the fact remains that, except in the case of the companies mentioned above, no dividend may be paid out of capital. The capital funds subscribed by the shareholders can only be utilised for the purposes enumerated in the Memorandum of Association, and directors and officers of a company incur serious personal risk if they employ them for the purpose of paying dividends. The onus is on them to show that the dividends have been paid out of profits. (*Rance's Case* (1871), 6 Ch D. 104).

HOLDING COMPANIES

A company formed for the sole or main purpose of buying shares in other companies with the aim of averaging risk and yield, so that the members of the company may obtain a higher yield, with comparative safety, than they could obtain as individual investors, is commonly called a *Trust Company*. The directors of such companies require to be experts in stock and share movements, yields, etc., and a well managed company of this type performs a very useful function for the investor who requires a fair yield with reasonable safety of capital.

As a contrast to the above type of company, there is the *Finance Company*, formed for the purpose of making profits by buying and selling shares, promoting company flotations, underwriting, and similar more or less speculative ventures. This type of company, in the hands of efficient directors, can be very successful, but inexpert management often leads to a short and disastrous life.

A third type of company, not to be confused with the Trust Company, is the *Holding Company*. Such a company acquires a *controlling interest* in other companies, then termed, in relation to the Holding Company, subsidiary companies. The object of acquiring such control is, usually, to weld the whole of the companies into one combine, to the mutual advantage of all, but particularly of the Holding Company.

The Companies Act, 1929, for the first time in the history of English company legislation, contains provisions for compelling holding companies to disclose certain information in their published accounts. These provisions are worthy of reproduction in full, and are accordingly given hereunder.

Meaning of Subsidiary Company.

By S. 127.—(1) Where the assets of a company consist in whole or in part of shares in another company whether held directly or through a nominee and whether that other company is a company within the meaning of this Act or not, and—

(*a*) the amount of the shares so held is at the time when the accounts of the holding company are made up more than fifty per

cent. of the issued share capital of that other company or such as to entitle the company to more than fifty per cent. of the voting power in that other company, or

(*b*) the company has power (not being power vested in it by virtue only of the provisions of a debenture trust deed or by virtue of shares issued to it for the purpose in pursuance of those provisions) directly or indirectly to appoint the majority of the directors of that other company,

that other company shall be deemed to be a subsidiary company within the meaning of this Act, and the expression " subsidiary company " in this Act means a company in the case of which the conditions of this section are satisfied

(2) Where a company the ordinary business of which includes the lending of money holds shares in another company as security only, no account shall for the purpose of determining under this section whether that other company is a subsidiary company be taken of the shares so held.

Assets consisting of Shares in Subsidiary Companies to be set out separately in Balance Sheet.

By S. 125. Where any of the assets of a company consist of shares in, or amounts owing (whether on account of a loan or otherwise) from a subsidiary company or subsidiary companies, the aggregate amount of those assets, distinguishing shares and indebtedness, shall be set out in the balance sheet of the first-mentioned company separately from all its other assets, and where a company is indebted, whether on account of a loan or otherwise, to a subsidiary company or subsidiary companies, the aggregate amount of that indebtedness shall be set out in the balance sheet of that company separately from all its other liabilities.

Balance Sheet to include Particulars as to Subsidiary Companies.

By S. 126.—(1) Where a company (in this section referred to as " the holding company ") holds shares either directly or through a nominee in a subsidiary company or in two or more subsidiary companies, there shall be annexed to the balance sheet of the holding company a statement, signed by the persons by whom in pursuance of section one hundred and twenty-nine of this Act the balance sheet is signed, stating how the profits and losses of the subsidiary company, or, where there are two or more subsidiary companies, the aggregate profits and losses of those companies, have, so far as they concern the holding company, been dealt with in, or for the purposes of, the accounts of the holding company, and in particular how, and to what extent,—

(*a*) provision has been made for the losses of a subsidiary company either in the accounts of that company or of the holding company, or of both; and

(*b*) losses of a subsidiary company have been taken into account

by the directors of the holding company in arriving at the profits and losses of the holding company as disclosed in its accounts:

Provided that it shall not be necessary to specify in any such statement the actual amount of the profits or losses of any subsidiary company, or the actual amount of any part of any such profits or losses which has been dealt with in any particular manner.

(2) If in the case of a subsidiary company the auditors' report on the balance sheet of the company does not state without qualification that the auditors have obtained all the information and explanations they have required and that the balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them and as shown by the books of the company, the statement which is to be annexed as aforesaid to the balance sheet of the holding company shall contain particulars of the manner in which the report is qualified.

(3) For the purposes of this section, the profits or losses of a subsidiary company mean the profits or losses shown in any accounts of the subsidiary company made up to a date within the period to which the accounts of the holding company relate, or, if there are no such accounts of the subsidiary company available at the time when the accounts of the holding company are made up, the profits or losses shown in the last previous accounts of the subsidiary company which became available within that period.

(4) If for any reason the directors of the holding company are unable to obtain such information as is necessary for the preparation of the statement aforesaid, the directors who sign the balance sheet shall so report in writing and their report shall be annexed to the balance sheet in lieu of the statement

For the purposes of the Act, it will be apparent that more than one company might be a "holding company" by reference to a company within the meaning of S. 127, e.g. where a minority of the issued shares carry a majority of the voting power, or the power to appoint directors.

The statement required by S. 126 is to be made by the directors, and *follows* the auditor's report on the published Balance Sheet of the Holding Company. In practice, it is usually a bald statement giving the bare information stipulated by the section, and for this reason many authorities would like the section amended to require details of the losses made by subsidiaries to be stated, together with their effect on the value of the shareholding in such subsidiaries as it appears in the Balance Sheet of the Holding Company.

It does not fall within the scope of this work to discuss the advantages or disadvantages of holding company systems. From an accounting viewpoint, certain important problems arise after each company has prepared the Balance Sheet legally required each year; problems upon which it is only possible to touch in principle here, since so much must obviously depend upon the facts of each individual case.

For practical purposes, a Holding Company may be defined

as "a company which holds either directly or through nominees the whole of, or a controlling interest in, the share capital of one or more companies, termed, in relation to the holding company, "subsidiary companies." Control here means a majority of the voting power (coupled with a reasonable proportion of the issued capital) and is made effective by interlocking Boards of Directors.

The shares in the subsidiary companies may be acquired for cash or shares, usually the latter, since the "old" shareholders then become members of the holding company and so acquire an indirect interest not only in their own "old" company, but in all the other companies in the combine. Provision is made in S. 155 (see p. 299) for facilitating the acqusition of the shares of recalcitrant minorities.

The Holding Company may or may not be itself a trading company, but in any case its "legal" Balance Sheet shows only "Investments" in the subsidiary companies, and it is very difficult for its members to determine the value of its shares, which are obviously dependent directly upon the values of these investments.

Various expedients are adopted to overcome this difficulty:—

(1) A copy of each subsidiary company's Balance Sheet is attached to that of the Holding Company. This method is only practicable where the subsidiary companies are few in number.

(2) Statements of assets and liabilities, or of the net worths, of the subsidiary companies' Balance Sheets are attached to the Holding Company's Balance Sheet.

(3) A joint statement, termed a "Consolidated Balance Sheet," is prepared, treating the whole combine as one concern, in effect as a Head Office and Branches, in which reserves are made for the interests of other shareholders in such subsidiary companies as are not completely owned by the holding company.

Method (3) is that which gives the greatest amount of information to the Directors of the combine and to the members, and candidates for the professional accountancy examinations are expected to be familiar with the method of preparing such statements. These consolidated Balance Sheets are useful also for the information of creditors, bankers, debenture holders (where the holding company guarantees the principal and/or interest), and others interested in the combine. The technical legal aspect is disregarded, and the substantially correct accountancy aspect is set forth.

Many problems arise in practice which cannot be adequately discussed in the space now available, e.g. the position of preference shareholders. These matters are adequately dealt with in several specialised treatises dealing exclusively with holding companies.

The method of consolidating Balance Sheets embodies the principles enunciated in connection with Branch Accounts (Chap. XVI). An illustration is appended

Illustration.—The summarised Balance Sheets of a Holding Company, H Ltd., and a subsidiary company, S. Ltd., immediately after the holding company had acquired the whole of the shares in the latter, were as follows:—

H. LTD.

	£		£
Share Capital, Authorised and Issued	10,000	Sundry Assets	7,000
Creditors	4,000	Investment in S. Ltd., 6,000 £1 shares at cost	9,000
Profit and Loss Account	2,000		
	£16,000		£16,000

S. LTD.

	£		£
Share Capital, Authorised and Issued	6,000	Sundry Assets	10,400
Creditors	2,000		
Reserve	1,000		
Profit and Loss Account	1,400		
	£10,400		£10,400

(*Note* —Sufficient shares would be held by nominees of H. Ltd. to constitute the statutory minimum number of members.)

H. Ltd. has, in effect, purchased assets valued at £10,400, subject to paying off creditors, £2,000, i e it has purchased the right to net assets of £8,400, for £9,000. If it had absorbed S. Ltd., the result would have been a Goodwill figure of £600. In consolidating the Balance Sheets, therefore, this amount must appear as Goodwill, having been paid to the former members of S. Ltd. as a premium to gain control, although S. Ltd.'s assets have not been correspondingly written up.

Like profits prior to incorporation, the Reserve and Profit and Loss Balance of S Ltd. reach the Consolidated Balance Sheet as *a capital reserve*, and are taken into account in arriving at the Goodwill figure.

The Consolidated Balance Sheet thus appears as given on p 318.

Where inter-company indebtedness exists, the amount thereof must obviously be eliminated from both sides of the Balance Sheet. Similarly, goods in stock in the hands of one company, on which profit has been taken by another company in the combine, must be reduced to cost, thus eliminating from the combined Profit and Loss Account all unrealised profits.

An illustration is given on pp 319–21 of a Consolidated Balance Sheet where there are minority interests in the subsidiary company.

	£	s.	d	£	s	d.		£	s	d	£	s	d
Share Capital (that of H Ltd, since the interest in S. Ltd, has been purchased thereout)				10,000	0	0	Goodwill, being excess of cost of shares in S Ltd, over their nominal value:						
Capital Reserve (representing Reserve and Profit and Loss Account of S Ltd, on date of acquisition of shares) (see below)							Cost	9,000	0	0			
Reserve	1,000	0	0				Nominal value	6,000	0	0			
Profit and Loss Balance	1,400	0	0					3,000	0	0			
Deducted contra	2,400	0	0				*Less* Capital Reserve *per contra*	2,400	0	0	600	0	0
Creditors							Sundry assets.						
H Ltd.	4,000	0	0				H Ltd.	7,000	0	0			
S Ltd	2,000	0	0	6,000	0	0	S. Ltd	10,400	0	0	17,400	0	0
Reserve: S Ltd.	1,000	0	0										
Less: Transferred to Capital Reserve, since it existed when interest was acquired	1,000	0	0										
Profit and Loss Balance													
H Ltd				2,000	0	0							
S. Ltd	1,400	0	0										
Less transferred to Capital Reserve	1,400	0	0										
				£18,000	0	0					£18,000	0	0

Note.—In a published statement, only the totals of each item would appear.

H. CO. LTD. (Holding Company).

	£	s	d	£	s	d	£	s	d
Share Capital:									
400,000 Ordinary Shares of £1 each							400,000	0	0
100,000 6 % Preference Shares of £1 each							100,000	0	0
							500,000	0	0
Sundry Creditors							175,000	0	0
Reserve							120,000	0	0
Profit and Loss Account:									
Brought forward				8,000	0	0			
Profit for year	47,500	0	0						
Dividend receivable from S. Co.	12,000	0	0						
	59,500	0	0						
Less Interim Dividend on Preference Shares	3,000	0	0						
				56,500	0	0			
							64,500	0	0
							£859,500	0	0

	£	s.	d	£	s	d.
Goodwill				100,000	0	0
Land and Buildings				120,000	0	0
Plant and Machinery, *less* Depreciation				260,000	0	0
S Co.'s Shares						
120,000 £1 each at cost				144,000	0	0
Stocks				70,000	0	0
Sundry Debtors						
S Co., Dividend	12,000	0	0			
S. Co., Loan	3,000	0	0			
Others	105,000	0	0			
				120,000	0	0
Cash at Bank and in Hand				45,500	0	0
				£859,500	0	0

S. CO. LTD. (Subsidiary).

	£	s	d	£	s	d
Share Capital.						
150,000 £1 Shares				150,000	0	0
Reserve:						
At date of purchase by H Co	20,000	0	0			
Added since	5,000	0	0			
				25,000	0	0
Sundry Creditors				40,000	0	0
Profit and Loss Account:						
At date of purchase by H Co.	6,000	0	0			
Net Profit since	16,000	0	0			
				22,000	0	0
				£237,000	0	0

	£	s	d
Goodwill	22,000	0	0
Land and Buildings	50,000	0	0
Plant and Machinery, *less* Depreciation (5 %)	95,000	0	0
Stocks	25,000	0	0
Sundry Debtors	28,000	0	0
Cash at Bank and in hand	17,000	0	0
	£237,000	0	0

When the shares were acquired, a revaluation of the Land and Buildings and Plant and Machinery of the S Co. showed an excess over book values of £8,000 and £7,000 respectively, which excess values still exist

The S. Co. supplies goods to the H. Co. At the date of the Balance Sheet, the H Co.'s Creditors include £16,000 due to the S Co. on that account. Moreover, the H. Co had in Stock goods invoiced to them by the S Co. at £24,000. The S Co makes a net profit of 8 % on turnover.

Prepare a detailed consolidated Balance Sheet as on June 30, 19...

CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 1929

	£	s	d	£	s	d	£	s	d
Share Capital—Authorised, Issued, and fully paid:									
400,000 Ordinary £1 Shares							400,000	0	0
100,000 6 % Preference £1 Shares . ..							100,000	0	0
							500,000	0	0
Share Capital of S. Co. applicable to Outside Shareholders: 30,000 shares of £1							30,000	0	0
Proportion of Reserves and Profit and Loss Balances applicable to outside shareholders of S Co :									
Reserve (see below)				1,000	0	0			
Capital Reserve (see below)				8,200	0	0			
Profit and Loss Account (see below) ..				3,130	0	0	12,330	0	0
Capital Reserve:									
Reserves and Profit and Loss Account at date of acquisition of shares:									
Reserve (see below)				20,000	0	0			
Profit and Loss Account (see below)				6,000	0	0			
Appreciation in Buildings .. .				8,000	0	0			
Appreciation in Plant				7,000	0	0			
				41,000	0	0			
Less Proportion applicable to outside shareholders, $\frac{1}{5}$th				8,200	0	0			
Deducted contra				£32,800	0	0			
Sundry Creditors:									
H. Co.				175 000	0	0			
Less due to S. Co.				16,000	0	0			
				159,000	0	0			
S. Co	40,000	0	0						
Less Loan	3,000	0	0						
				37,000	0	0	196,000	0	0
Reserves.									
H. Co.				120,000	0	0			
S Co.	25,000	0	0						
Less Transfer to Capital Reserve, amount of Reserve at date of acquisition of shares	20,000	0	0						
	5,000	0	0						
Less Proportion applicable to outside shareholders, $\frac{1}{5}$th ..	1,000	0	0						
				4,000	0	0	124,000	0	0

	£	s	d	£	s	d	£	s	d
Goodwill									
H Co.				100,000	0	0			
S Co				22,000	0	0			
				122,000	0	0			
Add Excess of cost of shares in S Co over their Nominal value									
Cost	144,000	0	0						
Nominal	120,000	0	0						
	24,000	0	0						
Deduct Capital Reserve (contra) ..	32,800	0	0						
				8,800	0	0	113,200	0	0
Land and Buildings:									
H Co				120,000	0	0			
S Co . .	50,000	0	0						
Add Excess on revaluation	8,000	0	0						
				58,000	0	0	178,000	0	0
Plant and Machinery (*less* Depreciation)									
H. Co				260,000	0	0			
S. Co.	100,000	0	0						
Add Excess on Revaluation	7,000	0	0						
	107,000	0	0						
Depreciation	5,350	0	0						
				101,650	0	0	361,650	0	0
Stocks									
H Co.				70,000	0	0			
Deduct Inter-Company Profit—proportion applicable to combine $\frac{1}{15}$ths of 8 % on £24,000				1,536	0	0			
				68,464	0	0			
S. Co.				25,000	0	0			
							93,464	0	0
Sundry Debtors:									
H. Co				105,000	0	0			
S. Co.	28,000	0	0						
Less due from H. Co. .	16,000	0	0						
				12,000	0	0	117,000	0	0

	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
Profit and Loss Account:										Cash at Bank and in hand:						
H Co , Balance brought forward				8,000	0	0				H Co.	45,500	0	0			
Profit for year				47,500	0	0				S. Co	17,000	0	0			
				55,500	0	0								62,500	0	0
Less Interim Dividend				3,000	0	0										
				52,500	0	0										
S. Co	22,000	0	0													
Less Transfer to Capital Reserve, Balance of P. & L A/c at date of acquisition of shares	6,000	0	0													
	16,000	0	0													
Less Additional Depreciation on Plant, etc.	350	0	0													
	15,650	0	0													
Less Proportion Applicable to outside shareholders, $\frac{1}{5}$th ..	3,130	0	0													
	12,520	0	0													
Less Unrealised Profit in Stock	1,536	0	0													
				10,984	0	0										
							63,484	0	0							
							£925,814	0	0					£925,814	0	0

NOTES —(1) Alternatively, the value of the Goodwill acquired in the Subsidiary Company may be computed as follows:

Net Assets acquired.	£		£
Nominal Capital	150,000	$\frac{4}{5}$ths of £191,000	152,800
Reserve and Profit and Loss Account balance at date of purchase	26,000	*Less* Price paid for Shares	144,000
Appreciation of Plant and Buildings	15,000		
	£191,000	Amount to be deducted from book value of Goodwill	£8,800

The appreciation in the values of the Plant and Machinery is sometimes ignored, in which case the Goodwill figure shown in the Consolidated Balance Sheet would be increased by £12,000, the Buildings and Plant reduced by £8,000 and £7,000 respectively, and the liability to outside Shareholders by £3,000 It is considered advisable, however, to bring the revalued figures into the Consolidated Balance Sheet, and to provide for Depreciation on this basis

(2) Inter-Company indebtedness must be eliminated from the combined Debtors and Creditors In respect of the goods sold by the Subsidiary Company to the Holding Company, but still in Stock, the associated Companies' shares of the profit thereon has not been realised, and must therefore be eliminated from the combined Profit and Loss balance and Stock figure. The minority Shareholders' proportion of this profit, however, must remain as part of the cost of the Stock to the Holding Company.

EXAMINATION QUESTIONS.

EXERCISES.

1. A limited company issued £50,000 Ordinary Capital in £10 shares, payable £1 on application, £4 on allotment, and the balance two months later. The company also issued £50,000 in Debentures of £100 each, payable 10 % on application and the balance on allotment. The whole was subscribed and allotted on January 10, 19... Give the necessary Journal entries to record the above. (*National Union Teachers.*)

2. You are asked to provide the books and statements requisite for a limited company up to allotment and to supervise the accounts to that time. Describe your course of procedure. (*Chartered Accountants.*)

3. Laurent Carle, Ltd., a newly formed Company, issued 50,000 Ordinary shares of £1 each and 50,000 6 % Preference shares of £1 each. Of these, 51,650 Ordinary Shares were applied for, 50,000 of which were allotted; and 48,500 Preference Shares, all of which were allotted.

Briefly describe the procedure necessary in order to carry out the issue and allotment of these shares, and give rulings of any special books or papers you would recommend.

Both classes of shares were payable: 2s. 6d. per share on application, January 3, 19.. ; 5s. per share on allotment, January 5, 19.. ; 12s. 6d. per share, first and final call, January 31, 19... (*Royal Society Arts.*)

4. The X Y Z Company, Ltd., has an Authorised Capital of £100,000, divided into 50,000 Preference Shares of £1 each, and 50,000 Ordinary Shares of £1 each. It has issued, and fully called, 40,000 Preference Shares, on which the calls unpaid amount to £1,000. It has also issued, and fully called, 40,000 Ordinary Shares, and the unpaid calls on these amount to £500; in addition, 1,000 of these shares, on which £500 has been paid, have been forfeited.

You are requested to set out the foregoing particulars as they should appear in the Balance Sheet. (*National Union Teachers.*)

5. The Tulip Soap Company, Ltd., was formed on January 1, 19.., with a nominal capital of 60,000 shares of £1 each, divided into 15,000 5 % Preference Shares and 45,000 Ordinary Shares. 8,000 Preference Shares were allotted and paid for in full on January 10th. 35,000 Ordinary Shares were allotted on January 15th, 5s being paid on appropriation and allotment. A final call was made on March 5th, when all amounts were paid except the final call on 100 shares. On March 25th £7,000 was raised by the issue of 5 % Debentures, the cost of the same, £380, being paid in cash on that day. On April 15th the company purchased the business of G. Galo, taking over the following assets: Plant, £5,000, Stock, £3,000; Sundry Debtors, £2,000, which were paid for by the allotment of 2,000 Preference Shares and 3,000 Ordinary Shares, fully paid, and the balance in cash.

Show Cash and Ledger accounts and Journal entries to record the above transactions and the Balance Sheet of the Company as at April 30, 19... (*Central Association Accountants.*)

6. The West African Rubber Company, Ltd., which was registered with a capital of £100,000 divided into 1,000,000 shares of 2s. each, invited applications for its capital, payable 6d per share on application, 1s. per share on allotment, and the remainder one month after allotment. On April 1, 19.., 1,200,000 shares were applied for, and the deposits thereon received. On April 6th following, applications for 800,000 shares were accepted in full, while applicants for the remaining 400,000 shares were allotted half the number they had respectively applied for. The balance due on allotment was in each case received on the following day, and the final instalment was received on May 6, 19... You are asked to show the record of the above transactions in the Company's Cash Book and Journal and in the following accounts in the Ledger: (*a*) Applications Account; (*b*) Allotment Account; (*c*) Call Account; (*d*) Share Capital Account. (*Chartered Institute Secretaries.*)

7. The undermentioned persons applied for, in the order named, and were, with one exception, duly allotted shares of £1 each offered for subscription by Soleil d'Or, Ltd The shares were payable as to 5s. per share on application, 5s per share on allotment, and the balance as and when determined by resolution of the Directors. The distinctive numbers allocated to the shares in question ran from 1 onwards. The application list was closed on July 1, 19.., and all allotment moneys were paid on or before July 15, 19...

Make the entries recording the application for, and allotment of, the following shares in the Application and Allotment Book of the Company.

	Applied for	Allotted.
Robert Rhoid, 16 Finsbury Circus, E.C., wool broker	5,000	5,000
George Dowey, 261 Low Pavement, Nottingham, lace manufacturer	1,000	500
Robert Richmond, Eastwood, Essex, rose grower	2,000	2,000
Florence Veitch, The Manse, Loamtown, spinster	100	none

(*Royal Society Arts*).

8. How would you suggest that the receipt of cash should be most conveniently recorded in the case of a limited company which issues 500,000 Ordinary Shares of £1 each, the issue being fully subscribed by a large number of applicants, the instalments being payable, 1s. on application, 4s. on allotment, and the balance in three calls of 5s. each, one, two, and three months after allotment respectively? (*Chartered Accountants.*)

9. A limited company, with a Nominal Capital of £50,000 in 50,000 Ordinary shares of £1 each, was formed to acquire an existing business. Shares to the value of £10,000 were issued to the vendors as fully paid, and 20,000 shares were subscribed for by the public. During the first year 15s. per share was called up, being 5s. per share on application, 5s per share on allotment, 2s 6d. per share first call, and 2s. 6d. per share second call. At the end of the first year there had been paid up on the shares subscribed for by the public: On 15,000 shares the full amount called; on 3,000 shares 12s. 6d. per share; on 1,500 shares 10s. per share; on 500 shares 5s. per share.

You are required to give the entries necessary to record the Capital transactions in the books of the company, taking into consideration the fact that all shares upon which less than 10s. per share had been paid were forfeited by resolution of the Directors. You are also required to show how the Capital would appear in the Balance Sheet of the company at the end of the first year. (*Chartered Institute Secretaries.*)

10. On January 31, 19.., Woodwards, Ltd., offered 50,000 new Ordinary Shares of £1 each for subscription at par. The shares were payable as to 2s. 6d. per share on application, as to 5s. per share on allotment, and the balance as and when required by resolution of the Directors.

The following applications were received:—

	Applied for.	Allotted.
Robert Easter, Baldwins, Chelston, Essex, gentleman	20,000	20,000
George Grainger, 365 Elden Avenue, E.C., wool merchant	10,000	10,000
Charles Coombe, 10 Low Pavement, Chester, shipowner	15,000	10,000
Phillip Goodsir, Salisbury House, E.C., solicitor ..	10,000	10,000
William Smith, Smithfield Market, E C., salesman	150	none

The Directors went to allotment on February 3rd, and all allotment moneys were duly paid on or before February 6th.

The distinctive numbers of the new shares ran from 50001 onwards.

Prepare a suitable Application and Allotment Book, and make the necessary entries therein; and give the entries, recording the above transactions in the financial books of the company. (*Chartered Institute Secretaries.*)

11. The Golden Gate Mining Company, Ltd, was registered on January 1, 19.., with a Nominal Capital of £150,000, to acquire the Suzanne Copper Mining Claim from Explorations, Ltd. The purchase price of the claim was agreed at £50,000, payable as follows: Cash, £10,000; Ordinary Shares £30,000; Debentures, £10,000.

The Company offered 100,000 Ordinary Shares of £1 each for public subscription on January 3, 19.., at a premium of 5s. per share, payable as to 7s. 6d. per share (including the premium of 5s.) on application, 5s. per share on allotment, and the balance on February 15th.

On January 10th the Directors went to allotment upon applications for 85,650 shares, all of which were allotted, and the allotment moneys duly paid on or before February 1, 19... The final call was also duly paid with the exception of the amount due upon a holding of 500 shares. The agreement with Explorations, Ltd., was carried out on January 25th.

Give the necessary entries to record these transactions, and show how they would appear in the Company's Balance Sheet. (*Chartered Institute Secretaries.*)

12. Journalise the following transactions of a limited company :—

The company was registered on January 1, 19.., with a Nominal Capital of £120,000, divided into 120,000 shares of £1 each, of which 40,000 were issued as fully paid to the vendor as part purchase consideration, 40,000 offered for subscription to provide working capital, payable as to 5s. per share on application, 5s per share on allotment, and the remainder in two calls of 5s. each ; 40,000 shares to be held in reserve for future issue. The vendor also received £10,000 in 5 % Debentures, being the balance of the purchase consideration.

Jan. 5. Applications were received for 35,000 shares.
 ,, 6. Allotment made of 35,000 shares.
 ,, 10. Amount due on allotment of 35,000 shares was received.
Feb. 10. First call of 5s. per share was made, payable on February 24th.
 ,, 10. 40,000 fully paid shares allotted to vendor.
 ,, 10. 5 % Debentures issued to vendor for £10,000, balance of purchase money. (*Chartered Accountants.*)

13. The Oriental Supplies Company, Ltd., made an issue of £50,000 Ordinary Shares of £1 each at a premium of 2s. per share, 2s. 6d. per share payable on application, 4s. 6d. (including the premium) on allotment, and 5s. on first call, due three months after allotment, and the balance as required.

The Application List was closed on March 25, 19.., when it appeared that applications had been received for 60,000 shares.

On March 31st the Directors met and allotted shares as follows: Applicants for 40,000 shares in full; applicants for 15,000 shares, 10,000; applicants for 5,000 shares, nil, their application money being returned on April 1st.

The whole of the amounts due on application and allotment were received by April 10th.

The first call became due on June 30, 19.., and was all received by July 8th, with the exception of the call due on 1,000 shares.

The call on these 1,000 shares not having been received, the shares were duly declared forfeited by the Directors on September 30, 19...

Make the necessary entries in the Cash Book and Journal of the Company to record the above transactions (*Chartered Accountants.*)

14. Robert Coe, of Fairvale, Somerset, potato grower, applied on January 1, 19.., for 1,000 shares in the Erratic Motor Omnibus Company, Ltd , issued at par, paying 2s. per share on application.

These 1,000 shares were allotted to him on January 3, 19.., numbered 180365 to 181361, and he duly paid the allotment instalment of 8s. per share on January 4th.

On January 5th he bought a further 1,000 shares, 10s. paid, numbered 24062 to 25061 on the Stock Exchange at the price of 11s. per share, free of stamps and brokerage, the transfer for the same being lodged with the Company on January 5th, and approved by the Board the same day.

On January 16th he paid the first call of 10s. a share on his 2,000 shares, thus making them fully paid.

On February 5th he sold the whole of his holding on the Stock Exchange at 18s. per share, free of stamps and brokerage, the transfer being lodged with the Company and approved by the Board on February 10th.

Show a ruling of a Share Ledger and a Transfer Register for the Company, inserting in the latter the details of the foregoing transactions as far as they apply, and giving in the former R. Coe's account as a member of the Company.

Also show R. Coe's Investment Account as it would appear in his own Ledger, assuming that the purchases and sales of shares were paid for on the day of their occurrence. (*London Chamber Commerce.*)

15. Doubts having arisen as to the accuracy of the Share Books of a public company, describe in detail the steps you would take to audit them. (*Chartered Accountants.*)

16. Can shares be issued at (*a*) a discount, (*b*) a premium ? If so, how should the transactions be dealt with in the books of the company ? (*Central Association Accountants.*)

17. Are premiums received on the issue of Share Capital available for dividend : (*a*) In the case of a company incorporated under a special Act of Parliament; (*b*) in the case of a limited company under the Companies Act. (*Chartered Accountants.*)

18. Premiums on shares of a company having been carried to a Reserve Fund, a portion in a bad year's trading is transferred to Profit and Loss Account in order to pay its Preference dividend. Would you see any objection to this course ? (*Chartered Accountants*)

19. Make the Journal entries necessary in order to record the undermentioned transaction: The Ravary Printing Machine Company, Ltd., issued, on June 30, 19.., 100,000 Ordinary £1 shares at a premium of 5s. per share, payable on application. The shares applied for were payable as to 10s per share on application and as to 15s. per share upon allotment. The issue was fully subscribed by the public. Allotment duly took place for the whole issue on July 15, 19... (*London Chamber Commerce.*)

20. The Tin Mines Company, Ltd., issued new capital on February 28, 19.., consisting of 40,000 Ordinary Shares of £1 each, payable as to 5s. on application, 5s. on allotment, and 10s. one month after allotment. The shares were issued at a premium of 5s. per share, payable on allotment, and the issue was over-subscribed to the extent of 10,000 shares. Make the necessary Cash Book and Journal entries, the whole of the money having been duly received by the Company. (*Chartered Accountants*)

21. A company issued £500,000 new Capital, divided into £10 shares at a premium of £5 per share, payable thus :—

On application,	£1 per share.					
On allotment,	£4 per share and	£2	10	0	premium.
Final payment,	£5 per share and	£2	10	0	premium.
Together,	£10 per share and	£5	0	0	premium.

Over-payments on application were to be applied towards sums due on allotment, and over-payments on application exceeding sums due on allotment were to be returned. Where no allotment was made money was to be returned in full. Draw form for an Application and Allotment Book to meet above circumstances, and make specimen entries. (*Chartered Accountants.*)

22. The Westholme Engineering Company, Ltd., was registered in 19.. with a Nominal Capital of 500,000 shares of £1 each. During the same year 250,000 of these shares were issued and fully paid up.

The balance of the Share Capital was offered to the public in 19.. at a premium of 5s. per share. Of these shares 200,000 were applied for and duly allotted, payable, as to 7s. 6d. per share on application (including the premium) and 2s. 6d. per share one month after allotment. No further call was made during the year. The expenses of the second issue amounted to £1,025, of which amount £500 was written off during the year.

Show how the above transactions would appear in the Company's Balance Sheet as on December 31st last. (*Chartered Accountants.*)

23. Rayon d'Or, Ltd , has a Capital consisting of 100,000 Ordinary Shares of £1 each, upon which 2s 6d. per share was paid upon application, and 7s. 6d per share on allotment. As Secretary to the Company, the Directors instruct you to take all the necessary steps to call up the balance due upon the shares. State briefly how you would proceed; submit sketches of any special books or papers you would employ, and give the entries necessary to record the call in the books of the Company. (*London Chamber Commerce.*)

24. How should money received in respect of shares which have been forfeited and reissued be treated in the accounts of a company ? (*Chartered Accountants.*)

25. When auditing the accounts of Hugh Dickson, Ltd., you find the following Journal entry :—

		£	£
Sundry Shareholders	Dr.	100	
To Interest Account			100
For interest at 6 % on calls in arrear.			

Do you approve of this entry ? If so, under what conditions ? (*Chartered Accountants*)

26. The Hillborough Manufacturing Company, Ltd., had a total subscribed Capital of £100,000 in Ordinary Shares of £10 each, on which £7 10s. had been called up. A final call was made, and all amounts were paid except £25 due from D. Drake, who owned 10 shares. These shares were forfeited and reissued at £9 per share for cash. Show the General Ledger Accounts in which the above transactions are recorded and the balances thereof as they would appear in the Balance Sheet of the Company. (*Central Association Accountants.*)

27. One thousand shares of £1 each in the Eldorado Mining Company, Ltd., were allotted to John Jones, of Bangor, shipowner, on March 1, 19...

He paid 5s. per share on application, and 5s. per share on allotment. A first call of 5s per share was made, payable on June 1, 19... This he failed to pay, and the Directors of the Company decided to forfeit his shares. Notice of the intention to forfeit was given on August 1, 19.., and as the call still remained unpaid the shares were duly forfeited on September 1, 19... In the meantime a second call of 5s. per share had been made, payable on September 1, 19...

On October 1, 19.., the forfeited shares were reissued as fully paid to William Wilson, of Exchange Street, Liverpool, cotton merchant, at the price of 15s. per share.

Describe the usual course of procedure in forfeiting shares, and make the entries in the books of the company necessary to show the full effect of the above transactions. (*Chartered Accountants*)

28. The prospectus of Messrs. Black & Tan, Ltd., was publicly advertised on January 21st, with the following loan and share issues: *Debentures:* 1,000 4 % debentures of £100 each, the whole of which were offered and fully subscribed and paid up. *Preference Shares*. 20,000 6 % Preference Shares of £5 each, the whole of which were offered and fully subscribed and paid up. *Ordinary Shares:* Nominal, 30,000 Shares of £5 each, of which 10,000 shares were issued as fully paid to the vendors in part payment of the purchase price of the business. Of the remaining 20,000 shares the public subscribed for 15,000 shares, the whole of which were, in due course, fully paid up, with the exception of the last call of £2 per share on 500 shares, which were subsequently forfeited by resolution of the Directors. Pass the necessary entries through the Company's books to record these transactions, and state how they should appear in the Balance Sheet. (*London Chamber Commerce*)

29. Brown & Black, Ltd., was registered as a limited liability company on October 1, 19.., with an Authorised Capital of £500,000. The company went to allotment on November 1, 19.., when 200,000 Ordinary Shares at £1 each were allotted at a premium of 2s. 6d per share, payable 2s. 6d. on application, 5s. (including premium) on allotment, and the balance on May 1st next All the allotment and call money was paid when due except

in the case of one shareholder, who failed to pay the final call on 200 shares held by him. His shares were forfeited on June 1, 19... Show the necessary entries in the books of the company to record these transactions. (*Central Association Accountants.*)

30. The Directors of a limited company forfeited 1,000 Ordinary Shares of £1 each owing to non-payment of the final call of 10s. per share. The shares were subsequently reissued to another shareholder for a cash payment of 22s. 6d. per share.

(1) Are these proceedings *intra vires* ?

(2) What steps should you take to enable you to arrive at a decision ?

(3) How should the transactions be dealt with in the Balance Sheet which you are asked to certify ? (*Chartered Accountants.*)

31. On February 11, 19.., the Directors of a limited company resolved that 60 shares of £1 each, issued to James Robinson, should be forfeited for non-payment of the amounts payable on allotment and first call, viz. 7s. 6d. and 5s. respectively ; the deposit on application, 2s. 6d., had been paid. No further call was made. On March 25, 19.., they resolved that the said shares be issued to William Brown on payment by him of £40. Make the necessary entries in the company's books, including the Share Ledger. (*Chartered Accountants.*)

32. What are the duties of auditors in connection with the statutory meeting of a company registered under the Companies Act? (*Chartered Accountants*)

33. What do you know about the statutory meeting of a private company ? (*Chartered Institute Secretaries.*)

34. By the Companies Act it is enacted that the Directors' Report to be issued to the shareholders before the first statutory meeting of a company, "Shall so far as it relates to the shares allotted by the company and to the cash received in respect of such shares, and to the receipts and payments of the company on Capital Account, be certified as correct by the auditors, if any, of the company." How would you, as an auditor, interpret the phrase "on Capital Account" ? (*Chartered Accountants.*)

35. As auditor of the L Company, Ltd., you are required to certify the Statutory Report. Part of the item treated as Cash subscribed in respect of shares allotted "on the footing that they are to be paid for in cash on the terms mentioned in the Prospectus" consists of Bills of Exchange at three months' date. How would you act ? (*Incorporated Accountants.*)

36. You are appointed auditor on the formation of a limited company, and are instructed to examine the books for the purpose of certifying the particulars required for the Statutory Report under the Companies Act, 1929. What steps would you take to enable you to give the necessary certificate in respect of (*a*) shares allotted by the company ; (*b*) cash received in respect of such shares ? (*Chartered Accountants.*)

37. Prepare "Statutory Report" from the following figures :—*Receipts* : On allotment of 50,000 shares of £10 each, £137,000. Proceeds sale of old building material removed from freehold, £1,742. Advanced on mortgage, £47,000. Received in respect of allotment of Debenture Stock (75 % of £100,000), £75,000. *Payments*. Purchase of freehold, £205,000. Paid builders on account, £12,600. Paid for Stock in Bond, £24,350. Paid salaries, £247. Office and petty expenses, £147. Preliminary expenses to date, £2,471. (*Chartered Accountants.*)

38. Many companies have lately capitalised part of their Reserves by issuing "bonus shares" to shareholders. Illustrate the meaning of this, and set out your views as to the advantages and disadvantages of the procedure. (*Chartered Accountants*)

39. Prepare from the particulars given below the Report pursuant to Section 113 of the Companies Act, 1929, of the N G Company, Ltd.

Total number of shares allotted is 41,044 of £1 each, 33,000 issued as fully paid to the vendor; on the remaining 8,044, 5,500 have been paid up,

but in respect of the balance, 2,544 shares, although they have been allotted by the Directors, no cash has been received by the Company.

The Company commenced business on August 3, 19...

The Report is to be dated October 20, 19...

The following payments have been made. £1,000 to vendor; £200 for Preliminary Expenses; £750 for Plant purchased; £315 Wages and Salaries; £75 Rent of Warehouse; £80 Fittings and Fixtures. (*Incorporated Accountants.*)

40. The Shareholders' Trust, Ltd. (Directors, John Smythe, Tom Browne and Richard Bruce-Jones; Secretary, A. Scribe; and Auditors, Critic & Co.), was entitled to commence business on April 1, 19...

Eighty thousand shares of 10s. each had been applied for and duly allotted, and 2s. 6d. per share, payable on application, with 2s. 6d. per share payable on allotment, had been received by the Company. An additional 10,000 shares were, under the purchase agreement, allotted to the vendors as fully paid.

Prepare the Statutory Report (with auditors' certificate), and state within what period the statutory meeting of the Company should be held, in order to comply with Section 113 of the Companies Act, 1929.

The following payments had been made prior to the date of the report, viz.: On account of Preliminary Expenses, £2,500; Investments, £10,000; Directors' Fees, etc., £250; Printing and Stationery, Postages and Sundries, £45.

The sum of £5,000 had been placed on deposit at the bank.

The Preliminary Expenses were estimated in the prospectus at £3,500. (*Chartered Accountants.*)

41. As the auditor of a limited company, you are asked to certify the Report pursuant to Section 113 of the Companies Act, 1929. Upon attending at the company's office you are furnished with the undermentioned particulars, which you are asked to assemble in the statutory form.

Submit the necessary statement in the form you would be prepared to certify, and append your certificate thereto.

The company was entitled to commence business on January 3, 19... The Nominal Capital is 100,000 Ordinary Shares of £1 each. The number of shares allotted is 72,865, of which (*a*) 40,000 were issued as fully paid to the vendor; (*b*) 10,000 were fully called and paid up; (*c*) of the balance of the issue, 10s. per share had been called and paid, except that the first call of 2s 6d. per share on 200 shares remained unpaid.

£10,000 had been received in respect of a loan on mortgage of the company's works.

The payments were as follows: Vendor, balance of purchase price, £5,000; Preliminary Expenses, £1,250 (estimated in the prospectus at £1,000); Contractors on account of Freehold Factory, £6,850, less £750 allowed by them for old building material on site; Office Salaries, £722; Directors' Fees, £150; Incidental Expenses, £182. Date the report March 5, 19.., and fix a date for the statutory meeting. (*Chartered Accountants.*)

42. What are "preliminary expenses," and how are they dealt with by limited companies? To what extent (if any) are these expenses allowed by the Income Tax authorities as a charge against revenue? (*London Chamber Commerce.*)

43. The profits of a business taken over by a company, registered on March 31, 19.., amounted for the year ended December 31, 19.., to £50,000.

Is the whole available for dividend? If not, to what extent, and how should the balance be appropriated? (*Chartered Accountants.*)

44. A limited company, registered on March 31st, takes over the assets and liabilities of a trading concern as on January 1st. The profits for the six months to June 30th were £5,000. How would you deal with this sum on closing the books on June 30th? Is the profit available for distribution? (*Chartered Accountants.*)

45. A limited company is incorporated on March 31, 19.., for the purpose of taking over an existing business, and commences its own business on that date. Under the purchase agreement the company is entitled to all profits since the previous January 1st, and at the end of December, 19.., the profits made for the year amount to £10,000, the whole of which sum the Directors propose to distribute by way of dividend. Under the circumstances described, what explanation and recommendation, if any, will it be your duty as auditor to place before the Board? *(Chartered Accountants.)*

46. A limited company was incorporated on April 15, 19.., to take over the business of a vendor firm as from December 31st previous. The Agreement for Sale was entered into by the vendors with a trustee for the intended company on March 31st, and was expressly referred to, and its adoption by the company provided for, in the Articles of Association. It contained provisions that all the profits of the business as from December 31, 19.., should belong to the company, and that the vendors should continue trading in the usual way for the benefit of the company until completion, and be indemnified and account accordingly. The agreement was adopted on April 30th, and completion took place on May 31, 19... The accounts for the year show a net profit for the whole year of £12,000, and the Directors proposed to divide the whole as dividend. What considerations govern the determination of the amount distributable? *(Chartered Accountants.)*

47. A company was formed on April 8, 19.., taking over a business as from March 1, 19... The Balance Sheet on September 1, 19.., contains the following items:—

LIABILITIES.	£	ASSETS.	£
Creditors	8,596	Debtors	21,586
Mortgage	10,000	Bank	586
Capital, 5 % Preference ..	36,000	Patent Rights	2,000
Capital, Ordinary . ..	22,668	Machinery	15,976
Profit from March 1, 19..	8,984	Building	20,000
		Goodwill	15,000
		Preliminary Expenses ..	1,100
		Stock	10,000
	£86,248		£86,248

How would you ascertain the profit to April 8th and what suggestions would you make as to its disposal? *(Incorporated Accountants.)*

48. A limited company was formed to acquire an old-established business as a going concern. The company was to take over the assets at £100,000, and pay the liabilities of the old firm. The purchase agreement was dated January 1, 19... The company was incorporated on March 31, 19... Upon accounts being prepared it was found that the business had made a loss of £3,200 during the three months ended March 31, 19... The Directors desire to set off this loss against the profit made in the succeeding nine months and ask your advice in the matter.

What advice should you offer? *(Chartered Accountants.)*

49. Give a *pro-forma* Journal entry in illustration of the entries you would expect to find recording the purchase of an established business by a limited company formed for that purpose. *(London Chamber Commerce)*

50. The Perpetual Motion Company, Ltd., agreed to purchase from John Johnson the assets and goodwill of his business, which were as follows:—

	£
Freeholds	3,000
Plant	8,000
Goodwill	7,000
Stock	2,000
	£20,000

Payment was made on November 1, 19.., as to £15,000 in 5 % Debentures, and the balance in Ordinary shares of £1 each, valued at a premium of 5s. each. Show the necessary entries in the books of the company to record the transactions. *(Central Association Accountants.)*

51. The Carino Exploring Syndicate, Ltd., owning concessions covering a large area in South-West Africa, floated a subsidiary company—the Ravary Mine, Ltd.—to acquire mining rights over a portion of its territory. The purchase price payable by the subsidiary company was £50,000 in fully paid shares. All the expenses of the flotation (£2,525) were to be repaid by the Ravary Mine in cash How would you record these transactions in the books of the Carine Exploring Syndicate, Ltd. ? (*London Chamber Commerce*)

52. The Octopus Insurance Company (having on June 30, 19.., a called-up Capital of £250,000 in £10 shares, £1 paid, quoted on the market at £22 10s., and a Reserve Fund of £1,500,000) purchases, on November 30, 19.., the business of the Retiring Insurance Company (having on June 30, 19.., a called-up Capital of £200,000 in £20 shares, £2 paid, quoted on the market at £8 10s., and a Reserve Fund of £600,000) for £45 for each five shares, giving one-half of the consideration in its shares taken of the value of £22 10s. each, and one-half in 4 % Debenture Stock taken at par. In addition, 7s. a share in cash is to be given by way of dividend to December 31, 19...

Show how the accounts of the Octopus Company will stand after the purchase has been completed. (*Chartered Accountants*)

53. The Eastern Trading Company, Ltd., in 19.. sold one department of its business to the Titan Company, Ltd. The value of this branch, according to the books of the Company, was £20,000. The purchase price was fixed at £30,000, to be discharged by the issue to the Eastern Trading Company, Ltd, of 30,000 Ordinary shares of £1 each, fully paid, in the Titan Company, Ltd.

The Eastern Trading Company, Ltd, had borrowed from C D £20,000 at 6 % and the Titan Company, Ltd, being very prosperous, C D in 19.. agreed to accept 10,000 Titan Company shares at £2 per share in discharge of the loan. These shares were accordingly transferred to C D on June 30, 19...

Draft the Journal entries necessary to record the above transactions in the books of the Eastern Trading Company, Ltd. How would you deal with the apparent profit on the sale to the Titan Company, Ltd., and on the transfer of the Titan shares to C D ? (*Chartered Accountants.*)

54. A limited company is formed to buy a property from B for £50,000 ; £25,000 in cash and £25,000 in shares The Capital is £75,000 in 75,000 shares of £1 each. 55,000 shares are issued, 5s. payable on application, 5s. on allotment, 5s. on first call, and 5s. on final call.

The purchase money, £25,000, is paid, and the consideration shares are allotted to B.

The preliminary expenses, £2,200, are paid by the company. Shareholders holding 820 shares fail to pay the final call, and the shares are forfeited under the Articles of Association.

State the Cash Book, Journal and Ledger entries necessary to record the facts. (*Incorporated Accountants.*)

55. A company, consisting of seven shareholders, holding 2,000 shares of £10 each, equal to £20,000, sold to B Company the assets, subject to £10,000 mortgage and £2,000 creditors, which liabilities were taken over by the B Company. The purchase price was 1,500 shares of £10 each in the B Company, and a £1,000 for compensation to employees of the A Company.

Four of the A shareholders, holding 200 shares, objected to take B shares in payment, therefore the other three A shareholders, called "C & Company," bought the 200 shares for £2,000 cash.

The three A shareholders were the only partners of the firm of C & Company, who had treated the 1,800 shares in A Company as a partnership asset, at cost, which was £10,000.

Show what entries should be made in C & Company's books. (*Chartered Accountants.*)

56. A limited company is formed to purchase an existing business with a nominal capital of £200,000, one-half in Ordinary and one-half in 5 % Preference Shares of £1 each. 60,000 of the Ordinary Shares are issued at

a premium of 5s. per share, the Preference Shares being all issued at par; 5s. per share being payable on application and 10s. on allotment in each case. £20,000 6 % Debentures are underwritten at 98 %. On account of the purchase money of £54,000 a sum of £8,000 is paid in discharge of the liabilities of the vendor, and the following assets taken over: Stock-in-trade, £12,000; Book Debts, £20,000; Machinery and Plant, £6,000.

Journalise the entries necessary for recording the purchase in the books of the company. (*Incorporated Accountants.*)

57. Journalise the following transactions of a limited company:—

The company was registered on January 1, 19.., with a Nominal Capital of £120,000 divided into 120,000 shares of £1 each, of which 40,000 were issued as fully paid to the vendor as part purchase consideration, 40,000 offered for subscription to provide working capital, payable as to 5s. per share on application, 5s. per share on allotment, and the remainder in two calls of 5s. each; 40,000 shares to be held in reserve for future issue. The vendor also received £10,000 in 5 % Debentures, being the balance of the purchase consideration. (*Chartered Accountants.*)

58. On January 1, 19.., a company, with a Nominal Capital of £20,000, divided into 10,000 Ordinary Shares of £1 each and 1,000 6 % Preference Shares of £10 each, was formed to acquire the business of Albert Durand. It was agreed to allot as fully paid to the vendor, as purchase consideration of the assets acquired, 5,000 Ordinary Shares and 500 Preference Shares. On January 5, 19.., the balance of the Ordinary Shares was issued to the public at a premium of 5s. per share, and 75 % of this issue was duly applied for, the terms of subscription being 10s. per share (including the premium) on application, 7s. 6d. per share on allotment, and the balance on March 31, 19...

The company carried out its agreement with Albert Durand, and went to allotment on January 12th. All cash due on application and allotment was paid with the exception of that due on allotment of 500 shares to Victor Verdier. These shares were forfeited by resolution of the Directors on March 15, 19.., and were reissued on March 22, 19.., to Hugh Dickson on payment of the amount due on the shares

You are required to show how these transactions would appear in the books of the company, assuming that the call due on March 31, 19.., has been made, but that no cash has been received in respect of it. (*London Chamber Commerce.*)

59. James & Co.'s Balance Sheet at December 31, 1910, showed the following figures: Land and Works, £120,000; Stocks and Work in progress, £70,000; Patents, Licences, etc., £10,000; Book Debts, £60,000; Cash at Bankers and in hand, £40,000; Bills Receivable, £10,000; Trade and Cash Creditors, £100,000.

They sold the business to a company (which was formed with a Share Capital of £200,000, divided into 100,000 Ordinary and 100,000 Preference Shares of £1 each, and a Mortgage Debenture Capital of £100,000) for £300,000, to be satisfied by the issue to them of the whole of the Ordinary Shares, 50,000 of the Preference Shares, £50,000 Debentures, and the balance in cash.

The balance of the Preference Shares (at par) and of the Debentures (at 105) were issued to and taken up and paid for by the public as follows:—

	Preference Shares	Debentures.
On application	2s.	25 %
On allotment	8s.	40 %
On March 31, 1911	10s.	40 %

Underwriting and preliminary expenses amounted to £16,000.

Make the necessary entries in the company's books, and prepare the opening Balance Sheet. (*Chartered Accountants.*)

60. Make the necessary entries in Journal form to record the following transactions in the Books of Account of a limited company:—

(1) *January* 1, 19...—The company purchased from vendors Plant and Machinery valued at £5,000, Stock-in-trade valued at £2,500, and Patent Rights valued at £3,000.

(2) *January* 10, 19...—The company allotted to vendors, in part payment of purchase of these assets, 800 fully paid Ordinary Shares of £10 each, and issued 25 Mortgage Debentures of £100 each in satisfaction of the balance of purchase money

(3) *January* 15, 19...—The company allotted to applicants 1,000 Ordinary Shares of £10 each, having received on same date £2 per share, the amount payable on application and allotment.

(4) *February* 15, 19...—First call of £2 per share made on 1,000 Ordinary Shares.

(5) *February* 20, 19...—Payment of first call received in full.

(6) *March* 1, 19...—The company received £2,500 in respect of Book Debts due to vendors, agreed to be collected on their behalf. Vendors agreed to accept 30 Mortgage Debentures of £100 each in payment thereof, and these Debentures were issued to them on this date.

(7) *April* 1, 19...—Certain shareholders, being desirous of paying up the balance due on their shares pending further calls, the company agreed to allow them 5 % per annum interest on the calls paid in advance. £3,000 was received on this date from shareholders under this arrangement.

(8) *April* 15, 19...—The company applied the sum of £2,300 in redeeming 20 Debentures of £100 each at a premium of 10 % with £100 interest thereon to date of redemption.

In addition to the entries in the Books of Account, state briefly what other entries must be made in the records of the company in respect of the above transactions. (*Chartered Accountants.*)

61. The Oak Saw Mill Company, Ltd , agreed to purchase the business of Henry Sykes, timber merchant, as on January 1, 19... Henry Sykes's Balance Sheet on that date was as follows :—

Liabilities.	£	Assets.	£
Sundry Creditors	2,500	Land and Buildings (subject to Mortgage *contra*)	30,000
Bills Payable	6,000	Fixed Plant and Machinery	10,000
Loan on Mortgage of Land and Buildings *contra* ..	10,000	Loose Plant and Tools ..	3,000
Bank Overdraft	15,000	Stock-in-trade	12,000
H. Sykes's Capital	32,500	Sundry Debtors	10,500
		Cash in hand	500
	£66,000		£66,000

The purchase price was fixed at £55,000; and, in addition, the Oak Saw Mill Company, Ltd., took over the mortgage, and agreed to discharge the liabilities to Sundry Creditors and upon Bills Payable. The purchase price was to be discharged by the payment of £20,000 in cash and the allotment of £20,000 Ordinary Shares, fully paid, and £15,000 6 % Cumulative Preference Shares, fully paid.

The purchase was completed by the payment of the cash and the allotment of the shares on February 2, 19...

Make the necessary Journal entries (in the books of the Oak Saw Mill Company, Ltd) for recording the above transactions. (*Chartered Accountants.*)

62. The Insular Wire Company, Ltd., was formed to acquire the business of Gabriel & Co , whose Balance Sheet at the date of purchase was agreed as follows :—

Liabilities.	£	Assets.	£
Creditors	2,500	Cash in hand	175
Capital	13,000	Cash at Bank	825
		Debtors	3,100
		Stock-in-trade	5,000
		Fixtures, etc	500
		Machinery	3,900
		Leasehold Premises	2,000
	£15,500		£15,500

The agreement entered into provided that the purchase price should be £18,000, payable as to £12,000 in cash, and as to £6,000 by the allotment of 6,000 fully paid shares of £1 each in the Company The Nominal Capital of the Company was £30,000, of which 20,000 shares of £1 each were allotted on July 1, 19.., payable as to 10s. on application and 10s. on allotment. The whole of the cash due in respect of the shares was duly received. The cash consideration was paid by the Company July 20th, and the vendor's shares were allotted on that date. The preliminary expenses amounted to £400.

You are requested to open the books of the Company, recording the above transactions, and prepare a Balance Sheet as at J·ly 20th. (*Incorporated Accountants.*)

63. The Birget Engineering Company, Ltd., purchased certain patents from Short & Sharp, under an agreement dated June 30, 19.., at a cost of £40,000. £1,000 of this sum was to be paid to the vendors in cash, and the balance in fully paid £10 Ordinary Shares

Including the shares allotted as fully paid to the vendors, the company issued Capital to the extent of £75,000, consisting of £50,000 in Ordinary Shares of £10 each (£1 on application, £4 on allotment, and £5 at the end of three months), and £25,000 in 5 % Preference shares of £5 each (£1 on application, £2 on allotment, and £2 at the end of three months).

Under the agreement with Short & Sharp, the patents passed to the company on July 9, 19.., which date was also the date of allotment.

All the shares issued to the public were fully subscribed and duly paid for with the exception of £200 calls in arrear on the Preference Shares. All cash was paid direct to the company's Bankers.

Make the necessary entries in the books of the company to give effect to the above transactions, and show how they would appear in the company's first Balance Sheet. (*London Chamber Commerce.*)

64. Can (*a*) dividends on Ordinary Shares, (*b*) dividends on Cumulative Preference Shares, (*c*) interest on Debentures, be paid by a company at the close of its first year of trading when no profit has been made ? In giving your answer state if any exceptions are permissible. (*Central Association Accountants.*)

65. A limited company having its Capital divided into 6 % Non-Cumulative Preference Shares and Ordinary Shares is about to declare its first dividend

It is proposed to submit a resolution to the shareholders authorising the payment of dividends on both classes of shares free of Income Tax.

Is there any, and if so what, objection to this, and if there is an objection, can it or can it not be overcome, and in what way ? (*Chartered Accountants.*)

66. Source d'Or, Ltd., was registered in 19.. without special Articles of Association. At the annual meeting in May 19.. the Directors recommended the payment of a dividend of 5 % on the Ordinary Share Capital. The shareholders rejected the recommendation, and carried an amendment declaring a dividend of 6 %, which was paid in June 19...

As auditor to the Company, what steps should you take in the above circumstances ? (*Chartered Accountants.*)

67. The Capital of a limited company is divided into 250,000 5 % Cumulative Preference Shares of £1 each, and 250,000 Ordinary Shares of £1 each. The former shares are held by 3,000 shareholders, and the latter by 2,500 shareholders. Both classes of Capital are fully paid.

At the conclusion of the first year of the company's existence, the Directors proposed to pay the Preference dividend, and a dividend of 5 %, less tax, on the Ordinary Shares.

As auditor to the company, you have been asked to advise as to the method in which the payment of the dividends should be effected in order to ensure an efficient record and economy of labour, and to satisfy yourself as to their due payment.

Submit a brief report, containing the instructions you would give. (*Chartered Accountants.*)

68. The Directors of the Stanfram Company, Ltd. (Capital authorised, subscribed and paid up, £50,000), at the end of their first year's trading, decide to recommend the payment of a dividend of 5 %, and request you to advise as to the formalities incidental to the payment of the dividend (*a*) State your recommendations; and (*b*) draft rulings for a *pro forma* Dividend List. (*Incorporated Accountants.*)

69. The Profit and Loss Account of a limited company showed a credit balance of £53,368 10s. 8d.

The Directors of the company decided to dispose of this balance as follows :—

(1) To transfer £500 to a Forged Transfers Reserve Account and £8,000 to General Reserve Account, raising the latter to £20,000

(2) To pay the half-year's dividend due on the £150,000 6 % Preference Shares.

(3) To pay a dividend of 8% on the £250,000 Ordinary Shares free of tax.

(4) To write off the balance of the Debenture Issue Expenses Account, which stood at £3,876.

(5) To carry forward the balance to next year.

Assume that these proposals were confirmed by the shareholders, and give the entries necessary to record them in the books of the company. Assume that Income Tax was 5s in the £ (*Chartered Institute Secretaries*)

70. What do you understand by the term "Cumulative Preference Share" ?

The issued Capital of the P Q Manufacturing Company was 25,000 Ordinary Shares and 10,000 6 % Preference Shares, all £1 shares fully paid. The profit available for dividend for the six months ended June 30, 19.., was £3,600. No dividend has been paid on the Preference Shares for the three years ended December 31st last. Show how you would propose to distribute the profit. (*Incorporated Accountants.*)

71. The Directors of a limited company, believing that the undertaking is making substantial profits, desire to declare an interim dividend.

As auditor to the company, the Directors ask you (*a*) whether they are entitled to do this, (*b*) whether, in the circumstances, it will be wise; and if so, (*c*) what rate of dividend should be paid. No accounts have been prepared since the publication of the annual accounts seven months previously.

What advice should you offer, and what special circumstances would need consideration in arriving at your decision? (*Chartered Accountants.*)

72. On October 31, 19.., the Directors of the G H Company, Ltd., declared and paid an interim dividend at the rate of 6 %. per annum, less tax at 5s. in the £, in respect of the half year ended September 30, 19.., on 100,000 Ordinary Shares of £1 each, fully paid, held by a large number of shareholders. The bankers of the Company are Messrs. Black & Co. State what entries should be made in the books of the Company. On March 31st next, the close of the financial year, W. Jones, holding 50 shares, and J Brown, holding 5 shares, had not "claimed" their dividends. What further entries would be required? (*Chartered Accountants.*)

73. On December 31, 19.., the North and South Colliery Company, Ltd., had Ordinary Share Capital, authorised and fully subscribed, of £200,000, in shares of £10 each, and a General Reserve of £150,000. During 19.. the Capital was increased by £100,000, in new shares of £1 each; and the original shares were converted into shares of £1 each. Resolutions were duly passed, whereby £100,000 of the Reserve was distributed to the ordinary shareholders as bonus, and was applied in satisfaction of new shares issued to the shareholders at par. Set out the Journal entries and the accounts in full recording the foregoing transactions, and the information, in respect thereof, which should appear on the Balance Sheet of the Company as on December 31, 19... (*Chartered Accountants.*)

74. The Annual Accounts of Rayon d'Or, Ltd., showed a balance to the credit of Profit and Loss Account of £5,950 as on December 31, 19... The Nominal Capital of the Company consisted of 10,000 shares of £1 each, all of which had been subscribed and fully paid up.

At the annual meeting in February 19.. it was decided: (*a*) To increase the Nominal Capital of the Company to £15,000 by the issue of 5,000 6 % Preference Shares of £1 each. (*b*) To pay a dividend for the year 19.. of 55 %, 50 % to be discharged by the issue of fully paid Preference Shares at par, and the balance, 5 %, to be paid in cash.

Give the entries necessary to record these transactions. (*Royal Society Arts.*)

75 The accounts of the Mount Manufacturing Company, Ltd, on December 31, 19.., showed a balance to the credit of Profit and Loss Account of £5,870. The Company was a private one, with a Nominal Capital of £15,000 in shares of £1 each, 10,000 of which were subscribed and fully paid up. These were held as follows: A, 4,000; B, 4,000; C, 1,000; D, 1,000. At the annual general meeting of the Company, at which all the shareholders were present, it was unanimously decided as follows.—

(1) To increase the Nominal Capital of the Company to £25,000, the additional £10,000 to consist of 10,000 6 % Cumulative Preference Shares of £1 each.

(2) To pay a dividend for 19.. of 50 %, of which 20 % was to be paid in cash and 30 % by the issue of Preference Shares at par, treated as fully paid.

Make the Journal entries necessary to give effect to the above resolutions. (*Chartered Accountants*)

76. The following particulars have been extracted from the Balance Sheet of Soleil d'Or, Ltd., as on December 31, 19.. :—

CAPITAL.

Nominal: 10,000 5 % Preference shares of £5 each	£ 50,000	£
100,000 Ordinary Shares of £1 each	100,000	
	£150,000	
Issued: 5,000 5 % Preference Shares of £5 each	25,000	
50,000 Ordinary Shares of £1 each	50,000	
		75,000
Reserve Fund		20,000
Profit and Loss Account (Balance)		12,000

During the year 19.. resolutions were duly passed as follows:—

(1) A resolution converting the Preference Shares into Preference Shares of £1 each.

(2) A resolution declaring a bonus of 20 % on the Ordinary Shares, to be provided as to £6,000 out of the Reserve Fund, and as to the remainder out of the balance of Profit and Loss Account. The bonus to be satisfied by the issue of one fully paid Ordinary Share for every five Ordinary Shares held.

Give the Journal entries which are necessary to carry out the above resolutions, and show how they would affect the Balance Sheet of the Company as on December 31, 19... Assume that the profit for the year 19.. amounted to £4,000. (*London Chamber Commerce.*)

77. Unclaimed dividends amounting to £938, and dating back for ten years, stand in the books of a limited company.

The Directors desire to carry this amount to the credit of the Profit and Loss Account for the purpose of increasing the dividend for the past year, and ask you whether this proceeding would be *intra vires*.

What advice should you offer? (*Chartered Accountants.*)

78. What do you understand by "Debentures issued at a discount"? How would you show such Debentures in the Balance Sheet of a company? Give an example. (*London Chamber Commerce*)

79. The Directors of the South-East Argentine Railway Company, Ltd., issue £250,000 4 % Debenture Stock at the price of 90. How should the discount be dealt with in the Company's Balance Sheets from year to year ? (*Chartered Accountants.*)

80. A company having issued Debentures to the amount of £50,000, set aside out of the profits £5,000 each year, and paid off debentures to a similar amount. In the Balance Sheet issued at the end of five years, how would the item of Debentures and the amounts set aside appear ? (*Chartered Accountants.*)

81. Under its Debenture Trust Deed a company is to set aside £2,000 annually out of its trading towards the ultimate redemption of the Debentures, without any special directions as to the disposal of the amount. A sum of £20,000 has been accumulated in this way and stands at the credit of a Reserve Account in the books ; the Directors propose to close that account, and to write the £20,000 off the cost of certain new works. Do you, as auditor, see any objection to this proceeding ? Give reasons for your answer. (*Chartered Accountants.*)

82. Pembertons, Ltd., issued £50,000 5 % Debenture Stock at par in 19... The Company had power, under its Articles, to appropriate profits for the redemption of its Debenture Stock by purchase in the open market. £10,000 Debenture Stock was purchased in 19.. at 90, the brokerage and expenses being 2 % on the face value. The Directors are undecided as to the proper treatment of this transaction in the accounts for the year ended December 31st last, and appeal to you as auditor to the Company. What advice should you give them ? (*Chartered Accountants.*)

83. A company issues £100,000 Debenture Stock at 90 %, and pays 2 % for underwriting it. How should the transactions show in the company's books ? (*Chartered Accountants.*)

84. The Balance Sheet of the X Y Z Company was composed of the following items : Paid-up Capital, £10,000 ; Debentures, £6,000 ; Cash, £11,000 ; Debtors, £4,000 ; Creditors, £3,000 ; Stock, £6,000 ; Premises, £5,000 ; Balance of Profit, £7,000. Instead of declaring a dividend, it was decided to exercise the option of paying off the whole of the debentures at a premium of 3 %. Give the entries in the various Ledger accounts affected, and draw up a Balance Sheet showing the new position. (*National Union Teachers.*)

85. Malmaison, Ltd , issued £100,000 5 % Debentures, in bonds of £100 each on January 1, 19... The Debentures were issued at a premium of 5 %, and were payable as to 20 % on application, as to 30 % (including the premium of 5 %) on allotment (January 10th), and the balance on January 25th. Applications for 1,035 bonds were received.

Give the entries necessary to record the issue, and show how the above transactions would appear in the Balance Sheet of the Company. (*Chartered Institute Secretaries.*)

86. How should the discount on the issue of Debentures be dealt with in the undermentioned circumstances ? (*a*) Black, Ltd., issued 1,000 Debentures of £1000 each at 95, repayable at par in ten years. (*b*) White, Ltd., issued £100,000 5 % Perpetual Debenture Stock at 95. In each case the expenses of the issue, apart from discount, amounted to £3,500. (*London Chamber Commerce.*)

87. A limited company offered for subscription 10,000 Debentures of £10 each, bearing interest at 4½ %, and received application : January 18, 19.., from A for 100 Debentures ; January 20th, from B for 500 Debentures, and C 1,000 Debentures ; January 21st, from D for 10 Debentures ; and other applications which brought up the total to 12,500 Debentures. 10 % was payable on application, 40 % on allotment, and 50 % three months after allotment. On February 1st, 80 % of the amount applied for was allotted to each applicant. Rule a form of Application and Allotment Book, and enter therein the particulars in respect of the four cases mentioned above. (*Chartered Accountants.*)

88. Under what conditions are you, as auditor, prepared to approve: (*a*) The expense of underwriting the issue of its shares by a new company; (*b*) the expense of issuing Debentures at a discount and underwritten? (*Chartered Accountants.*)

89. The Soft Coal Company, Ltd., issued on April 1, 19.., £100,000 of Second Debentures at 5½%, on condition that before paying, or providing for payment of, any dividend on any shares or stock, the Company should pay to the Trustees for the debenture holders (immediately on the ascertainment of the result of the trading for the Company's financial year (which ends on March 31st) one-fourth part of the amount, if any, which might then otherwise be applied in payment of dividend on such shares or stock. The Company made a profit for the year ended March 31, 19.., of £14,500, and there was £1,500 brought forward from the previous year.

Draft the Journal entry necessary to make the Company's Ledger show the liability to the Trustees, and show how the items affected should appear on the Balance Sheet of the Company. (*Chartered Accountants.*)

90. On January 1st, Excelsa, Ltd., offered for subscription 500 4% Debentures of £100 each, repayable in five years at par. The price of issue was 98, payable as to £10 per Debenture on application, and the balance on March 1st. Applications were received for 600 Debentures, and 500 were duly allotted on January 3rd The underwriting and costs of the issue amounted to £500. Give the entries which these transactions would necessitate, and show how the issue would appear in the Balance Sheet of the Company as on December 31st (*London Chamber Commerce.*)

91. On receiving from the Secretary of a company of which you are the auditor the Balance Sheet, you find that during the year the Directors have issued £100,000 in 20,000 shares of £5 each at par and paid a commission thereon of 5s. per share; and also £100,000 in 5% Debentures of £100 each at £98, paying a commission for placing same of £1 each Debenture. The Directors do not propose to charge any of the commission or discount against the Profit and Loss Account. How would you require the items dealt with in the Balance Sheet, so as to enable you to report without addition to the statutory requirements? (*Chartered Accountants.*)

92. A company made an issue of £100,000 Debenture Stock, secured by trust deed on all the fixed and floating assets of the company Of this amount £50,000 was subscribed at a premium of £2%, £30,000 was subscribed at par, and £20,000 was issued to the company's bankers by way of collateral security for a loan of £15,000. Give the entries which should appear in the company's Balance Sheet to record these transactions. (*Chartered Accountants.*)

93. The X Y Company, Ltd, made an issue of 5,000 5% Debentures of £10 each at £9 10s per Debenture. The whole issue is underwritten by A B & Co. for a commission of 5% on the nominal value. Applications were received for 4,500 Debentures, which were duly allotted and paid for. The remaining 500 Debentures were allotted to A B & Co. under the terms of their underwriting agreement.

Write up the Debenture Account in the Company's Ledger, the account of A B & Co., and the "Cost of Debenture Issue" Account.

How would the above transactions appear in the Balance Sheet of the company? (*Chartered Accountants.*)

94. A limited company had outstanding £200,000 Mortgage Debenture Stock, bearing interest at 4%, but only redeemable at the option of the company, 50,000 6% Cumulative Preference Shares of £5 each, and 80,000 Ordinary Shares of £5 each. On December 31st, the Preference dividend was five years in arrear, and there was a debit balance of £250,000 on Profit and Loss Account. A revaluation of the assets showed them to be worth £650,000 after providing for current liabilities. Meetings were held, and resolutions passed, duly confirmed by the Court, to the following effect:—

(1) The Debenture Stock holders to exchange their stock for an equal amount of Bonds of £100 each, repayable by drawings at 105 over twenty years, and to bear interest at 5%.

(2) The Preference shareholders to receive Funding Certificates in respect of their arrears of dividend, such certificates to be repaid *pro rata*

out of any surplus profits after paying 5 % dividend on the reduced Ordinary Shares, but not to bear interest

(3) The Ordinary Shares to be reduced to £2 10s. each.

Show the Journal entries required, and state how you would deal with the Funding Certificates in the Balance Sheet. *(Chartered Accountants.)*

95. A company is desirous of reducing its Capital. State shortly the steps that must be taken to effect its purpose where the Articles do not contain a clause empowering the company to make any such reduction. For what purpose is a reduction of Capital usually required? *(Incorporated Accountants.)*

96. A company has a Capital of £100,000 in Ordinary Shares of £1 each (fully paid up) and a debit balance on Profit and Loss Account of £50,000. It is desired to reduce the shares to 10s. each, in order to wipe off the debit balance. State what steps must be taken to carry out the scheme, and, assuming that to have been done, show the entries that would have to be made in the books. *(Chartered Institute Secretaries.)*

97. How is a reduction of a company's Capital ordinarily effected? State particularly what steps are necessary where it is proposed (*a*) to return capital to the shareholders; (*b*) to write off Capital which has been lost; (*c*) to cancel shares which have not been taken up. *(Central Association Accountants.)*

98. The following is the Balance Sheet of the Alwyn Coal Company, Ltd., at December 31, 1915:—

LIABILITIES.

	£	s.	d.
Capital—			
Nominal 10,000 shares of £1 each	10,000	0	0
Issued and paid up, 7,000 shares	7,000	0	0
Creditors—			
Trade	5,609	2	0
Cash	1,076	7	10
Bank	2,117	10	0
	£15,802	19	10

ASSETS.

	£	s.	d.	£	s.	d.
Debtors	8,347	3	8			
Less Reserve	300	0	0			
				8,047	3	8
Cash in hand				213	19	2
Furniture				164	8	9
Wagons				525	10	0
Preliminary Expenses				675	10	0
Goodwill				1,000	0	0
Profit and Loss Account—						
1912	5,124	3	6			
1913	3,010	4	0			
1914	2,083	3	6			
	£10,217	11	0			
Less Profit, 1915	5,041	2	9			
				5,176	8	3
				£15,802	19	10

The Company having now become a profit-earning concern, the Directors desire at the earliest moment to convert it into a dividend-paying Company, and they have an offer of new Capital conditionally upon the losses to date and nominal assets being wiped off You are invited to submit a scheme for the reconstruction of the Company which will, in your opinion, most conveniently achieve that object. *(Incorporated Accountants.)*

99. The Exotic Mining Company, Ltd., with an Authorised Capital of £50,000, undertook on June 1, 19.., to buy the "Exotic" and "Eldorado" gold mining claims from the General Agency Company, Ltd., for £10,000, payable as to £1,000 in cash, as to £4,000 in fully paid Ordinary Shares, taken at par, and as to £5,000 in 6 % First Mortgage Debentures

On June 7, 19.., the Company offered for subscription 40,000 £1 Ordinary Shares at a premium of 2s per share, payable 5s. per share (including 2s. premium) on application, 5s. per share on allotment, and the balance of 12s. per share on July 15, 19...

Applications were received for 35,950 shares, all of which were allotted on June 10, 19... All allotment moneys were duly paid on June 14, 19...

The purchase agreement was carried out on June 10, 19.., the requisite allotments of shares and debentures and the payment of cash then being made.

All shareholders, except one holding 100 shares, duly paid the calls due on July 15th.

The shares belonging to the defaulting member were declared to be forfeited by the Board on July 31st, and were reissued by the Board on August 7th to the chairman (the Hon. Hugo Porter, M.P.), on his paying in cash the 12s. per share left unpaid by the original allottee.

Pass these transactions through the Company's books of account, and prepare a Balance Sheet at their conclusion. *(London Chamber Commerce.)*

100. The Debenture holders of A B, Ltd., put in a Receiver, who continued the business, and carried through a scheme of arrangement Show the Journal entries necessary for recording the transactions involved by the new arrangement of the Company, whose Balance Sheet on December 31st was as follows :—

Balance Sheet as on December 31st.	£
Ordinary Shares, £120,000, reduced to	300
Preference Shares, £150,000, reduced to	7,500
"A" Debenture Stock	162,000
"B" Debenture Stock, £200,000, reduced to	100,000
"C" Debenture Stock	50,000
Mortgages, £30,000, reduced to	20,000
Trade Creditors, £20,000, reduced to	—
Income Bonds, £120,000, carrying no interest, to be paid out of surplus profits only (£100,000 issued to "B" Debenture Stock holders and £20,000 to Trade Creditors)	—
Balance of profit accumulated during the Receivership	20,000
	£359,800
Factory and Plant, £71,700, reduced to	30,000
Leaseholds, £450,000, reduced to	200,000
Freeholds, £150,000, reduced to	85,000
Stock	10,000
Book Debts	9,000
Cash on Deposit	5,000
Properties purchased by Receiver	15,000
Goodwill, £38,500, reduced to	3,000
Cash on current account	2,800
	£359,800

(Chartered Accountants.)

101. On December 31, 19.., the Balance Sheet of the M Company, Ltd, was as follows :—

LIABILITIES.	£	ASSETS.	£
Nominal Capital, £20,000, divided into 10,000 6 % Cumulative Preference Shares of £1 each, and 10,000 Ordinary Shares of £1 each		Land and Buildings	2,000
Paid-up Capital—		Plant and Machinery ..	5,000
6,000 Ordinary Shares ..	6,000	Tools and Utensils	1,000
6,000 Preference Shares	6,000	Stock	7,000
	12,000	Sundry Debtors	3,000
5 % Debentures	3,000	Bills Receivable	900
Sundry Creditors	5,000	Cash	100
Bills Payable	3,000	Profit and Loss Account—Dr. Balance	8,000
Bank Overdraft	4,000		
	£27,000		£27,000

It was decided to reconstruct the Company, and for this purpose another Company, called the M (19..) Company, Ltd., was registered with a Capital of £20,000, divided into 8,000 Ordinary Shares of £1 each, and 12,000 7 % Preference shares of £1 each, to take over the assets and liabilities of the M Company, Ltd.

The Debenture holders in the M Company, Ltd, agreed to accept 7 % Cumulative Preference Shares in the M (19..) Company, Ltd., in exchange for their Debentures.

The Preference shareholders in the M Company, Ltd., were to receive one Preference Share in the M (19..) Company, Ltd, for every three shares held by them in the M Company, Ltd.

The Ordinary shareholders were to be allotted one Ordinary Share, 15s. paid, in the M (19..) Company, Ltd., in exchange for every four shares held by them in the M Company, Ltd.

The costs of the liquidation of the M Company, Ltd., were paid by the M (19..) Company, Ltd.

Give the Journal entries necessary to record the above transactions in the books of the M Company, Ltd. *(Chartered Accountants.)*

102. The X and Y Companies, having many interests in common, in order to economise, decide to amalgamate and form a new Company, Z.

The position of the two Companies was as follows :—

X COMPANY.

	£		£
Capital paid up	30,000	Debtors	18,000
Debentures	5,000	Stock	20,000
Cerditors	5,000	Goodwill	5,000
Profit and Loss Account	3,000		
	£43,000		£43,000

Y COMPANY.

	£		£
Capital paid up	20,000	Debtors	20,000
Creditors	8,000	Stock	10,000
Profit and Loss Account	2,000		
	£30,000		£30,000

The average profits of the X and Y Companies have been £3,000 and £2,000 respectively. The new Z Company agrees with the X and Y Companies to take over both concerns for the sum of £60,000, and, in addition, to discharge all liabilities; £10,000 to be paid in cash, and the balance in shares.

The profit on the conversion is to be divided between the shareholders of the X and Y Companies in the same proportion as the profits previously earned by the Companies.

Draw up a Purchase Account on the completion of the Z Company, and show how the Share Capital Accounts in the X and Y Companies should be closed.

A B held £5,000 shares in X Company and 4,000 £ shares in Y.

Show how much cash and how many shares A B should receive from the new Company. (*Incorporated Accountants.*)

103. A, B and C, carrying on separate businesses as general merchants agree to amalgamate and carry on as a private limited liability company with a Nominal Capital of £40,000; each partner taking, as payment for his Capital, fully paid-up shares in the company, and the assets and liabilities being taken over as they stand in the books of the several businesses.

A's assets and liabilities were: Stock, £3,000; Book Debts, £5,350; Bills Receivable, £1,582; Balance at Bank, £895; Sundry Creditors, £3,000; Bills Payable, £2,000.

B's assets and liabilities were: Stock, £4,290; Book Debts, £9,250; Bills Receivable, £1,580; Balance at Bank, £1,290, Sundry Creditors. £8,395.

C's assets and liabilities were: Stock, £8,000; Book Debts, £18,950; Bills Receivable, £3,860; Balance at Bank, £2,350; Sundry Creditors, £15,382; Bills Payable, £5,852; Reserve Fund, £5,000.

Prepare the initial Balance Sheet of the Company. The preliminary expenses of formation, amounting to £250, were paid. (*Chartered Accountants.*)

104. When auditing the books of a limited company, you find the under-stated Journal entry :—

	£	£
Loan Account, Dr.	10,000	
To London and Loamshire Bank		10,000
For loan secured by the issue of £12,000 of the 5 % Debentures of the company.		

Explain the meaning of this entry, and state how the transaction should appear in the published Balance Sheet of the company. (*Chartered Accountants.*)

105. The following are Balance Sheets of two Companies, A and B, on June 30, 19.. :—

Company A.	£	£
Share Capital, fully paid	149,500	
Forfeited Shares Account	125	
Debentures	40,000	
Plant and Machinery		37,500
Freehold Property		43,000
Bank Account		2,000
Goodwill		40,000
Sundry Creditors	5,875	
Sundry Debtors		25,000
Stock		68,000
Profit and Loss Account	20,000	
	£215,500	£215,500

Company B.	£	£
Share Capital	40,000	
Debentures	3,000	
Calls in arrear		500
Plant and Machinery		2,500
Freehold Property		2,000
Debtors and Creditors	25,000	22,500
Stock		18,000
Profit and Loss Account		16,500
Goodwill		6,000
	£68,000	£68,000

Company A decides to take over Company B, and agrees to discharge the liabilities and debentures and take over all the assets, the consideration being £1,200 cash and £30,000 shares in Company A, issued as fully paid up. The calls in arrear are worthless, and the shares were forfeited by the Directors of Company A prior to amalgamation. Company B is to pay its own costs of liquidation.

Draw up a Balance Sheet of the new Company as the result of the incorporation. (*Incorporated Accountants.*)

106. The following are the Balance Sheets on December 31, 19.., of the A and B Companies respectively :—

A Company, Ltd.

Liabilities.	£	Assets.	£
Capital, 100,000 shares, £1 each, fully paid	100,000	Freehold Premises	22,500
Sundry Creditors	18,129	Machinery and Plant ..	32,659
Reserve	7,000	Sundry Debtors	24,682
Profit and Loss, balance	16,440	Stock	38,640
		Cash in Bank and in hand	23,088
	£141,569		£141,569

B Company, Ltd.

Liabilities.	£	Assets.	£
Capital, 6,000 shares, £5 each, fully paid	30,000	Machinery and Plant, cost	22,240
Sundry Creditors	10,270	Sundry Debtors	6,249
		Stock	9,423
		Cash	129
		Profit and Loss, balance	2,229
	£40,270		£40,270

It is agreed that the businesses shall be amalgamated by the A Company purchasing the B Company as on December 31, 19.., on the following basis :—

(1) A dividend of 15 % to the shareholders of the A Company, to be declared prior to the amalgamation.
(2) The A Company to take over the assets of the B Company, the consideration being: (*a*) The payment of the liabilities of the B Company; (*b*) the payment of the costs of amalgamation; (*c*) the issue to the shareholders of the B Company of seven fully paid shares of £1 each in the A Company for every two fully paid shares in the B Company.

The costs of amalgamation amounted to £1,206. The floating assets of the B Company were worth the values stated on the Balance Sheet. Draft the Journal entries recording the purchase in the books of the A Company, and set out the Balance Sheet of the A Company after the amalgamation. (*Chartered Accountants.*)

107. Two companies carrying on similar businesses decide to amalgamate as on and from January 1, 19...

Their respective agreed Balance Sheets were as follows :—

A COMPANY, LTD., BALANCE SHEET, DECEMBER 31, 19...

LIABILITIES.	£	ASSETS.	£
7,500 Ordinary Shares, £10 each	75,000	Freehold Land and Buildings	12,000
Sundry Creditors	4,000	Plant and Machinery (less depreciation)	19,500
Reserve Fund	5,000	Stock	15,000
Profit and Loss Account	2,000	Sundry Debtors	8,000
		Cash in hand and at Bank	1,500
		Goodwill	30,000
	£86,000		£86,000

B COMPANY, LTD., BALANCE SHEET, DECEMBER 31, 19...

LIABILITIES.	£	ASSETS.	£
5,000 Ordinary Shares of £10 each	50,000	Plant and Machinery	25,000
Sundry Creditors	3,500	Stock	12,000
Depreciation Fund	2,500	Sundry Debtors	6,000
Profit and Loss Account	2,500	Cash in hand and at Bankers	500
		Goodwill	15,000
	£58,500		£58,500

In the case of the A Company, Ltd., which has been in existence for several years, plant and machinery has been regularly depreciated, but in the case of the B Company, Ltd., which only commenced business on January 1, 19.., plant and machinery stands at cost, and depreciation has been provided for by means of Depreciation Fund.

It is agreed that the combined Company shall take over the assets (including goodwill) and discharge the liabilities of each Company on the basis of the figures in their respective Balance Sheets as shown above.

The Capital of the combined Company was £200,000, divided into 100,000 Ordinary Shares of £1 each, and 100,000 6 % Cumulative Preference Shares of £1 each.

The combined Company issued 15,000 Ordinary Shares at par for cash, and agreed to allot to each shareholder in the A and B Companies five Ordinary and five Preference Shares of £1 each, fully paid, in exchange for each £10 share held by them, and to discharge any balance in cash.

Draw up the Balance Sheet of the combined Company, after the above transactions have been completed, and show what each shareholder in the A and B Companies would receive in shares in the new Company and in cash. (*Chartered Accountants.*)

108. The A Company, Ltd., and the B Company, Ltd. (both private Companies), amalgamate their businesses in the following manner:—

A holding company, called the X Company, Ltd., was registered on July 1, 19.., with a Capital of £200,000 in £1 shares, to purchase all the Ordinary Shares of both Companies. M, the Managing-Director of the A Company, Ltd., and N, the Managing-Director of the B Company, Ltd., each took up and paid for 1,000 shares

The Issued Capital of the A Company, Ltd, consisted of 75,000 Ordinary Shares of £1 each, fully paid, and 60,000 6 % Cumulative Preference Shares of £1 each, fully paid.

The Issued Capital of the B Company, Ltd., consisted of 40,000 Ordinary Shares of £1 each, fully paid.

The A Company, Ltd, shareholders received one £1 share fully paid in the X Company, Ltd., in exchange for each of their Ordinary Shares.

The B Company, Ltd., shareholders received one and a half £1 shares, fully paid, in the X Company, Ltd., in exchange for each of their Ordinary Shares.

The formation and preliminary expenses of the X Company, Ltd., amounting to £1,500, were paid out of cash.

Make the necessary entries in the books of the three companies to give effect to the above arrangements, and set out the opening Balance Sheet of the X Company, Ltd. (*Chartered Accountants.*)

109. The Capital of Edward Herriott, Ltd., consisted of 100,000 shares of £5 each, all fully paid. The Reserve Fund amounted to £200,000. Further capital was needed for the development of the business, and it was decided to divide each £5 share into three Ordinary Shares of £1 each and two 5 % Preference Shares of £1 each. Both classes of shares were to be deemed as paid up to the extent of 10s. per share. It was also decided to make a call of 10s. per share on both classes of shares, 5s. per share of which was to be met by a transfer from the Reserve and 5s per share was payable in cash. Give the entries necessary to record these transactions. (*London Chamber Commerce.*)

110. In what cases and subject to what conditions is a company entitled to pay interest out of Capital ? (*Chartered Institute Secretaries.*)

111. A successful Rubber Plantation Company found that its £5 shares rose to such a premium that the market became restricted A special resolution was therefore duly passed dividing the Company's 10,000 Ordinary Shares of £5 each into 200,000 shares of 5s each

Show the entries which are necessary in order to give effect to the above resolution. (*Royal Society Arts*)

112. The Debenture Trust Deed of a limited company provides: "In any year when profits are made, such profits shall be charged with a sum equal to 10 % of the whole (profits) for the purpose of redeeming debentures of the present issue." Do you approve of the method in which the clause quoted provides for the redemption of debentures ? If not, how would you amend it ? (*Chartered Accountants.*)

113. The Blank Company, Ltd.—the fully paid Capital of which consists of 200,000 Ordinary Shares of £1 each—has traded unsuccessfully, with the result that the debit balance of the Profit and Loss Account now amounts to £68,585. It is decided—subject to confirmation by the Court—to reconstruct the Company, and to reduce the £1 shares to shares of 10s. each fully paid. The balance of the Capital written off, after dealing with the Profit and Loss Account, is to be utilised in reducing the book value of assets of a wasting nature. Submit a *pro forma* Balance Sheet on the basis of the Capital and Profit and Loss figures given above, and submit the entire necessary to carry out the proposed reduction of Capital. (*Chartered Accountants.*)

114. The Directors of a company for which you are auditor consult you with regard to the payment of an interim dividend. State the points which would guide you in forming an opinion, and what information you would require before advising. (*Chartered Accountants*)

115. The Alpha Company agreed to take over the Omega Company as a going concern, both Companies being engaged in the same trade. The Alpha Company was to pay the debentures and liabilities of the Omega Company, and take over the assets, the consideration being the issue by the Alpha Company of 40,000 fully paid shares of £1 each, and the payment of £3,000 in cash to the Omega Company. The Alpha Company was to pay the liquidation expenses, which amounted to £1,400.

The balances in the books of the respective Companies, as on the date of absorption, are given hereunder :—

BALANCES.

	Dr.		Cr.	
	Alpha.	Omega	Alpha	Omega.
	£	£	£	£
Nominal Share Capital :— Alpha Company, 200,000 shares of £1 each. Omega Company, 75,000 shares of £1 each .				
Capital issued			150,000	50,000
Unpaid Calls	500	100		
5 % Debentures			50,000	10,000
Freehold and Leasehold Property	103,330	35,682		
Goodwill	30,000	5,000		
Sundry Creditors			8,342	4,362
Sundry Debtors	7,240	3,984		
Bank Balances	16,842			2,000
Stock	17,926	7,852		
Plant and Machinery	38,768	16,439		
Bills Receivable	3,621			
Profit and Loss Account (Balance)			9,885	2,695
	£218,227	£69,057	£218,227	£69,057

Assume that the absorption was duly effected, but that the unpaid calls and a book debt of £400 due to the Omega Company proved irrecoverable.
Prepare the Balance Sheet of the Alpha Company after absorption of the Omega Company. (*Chartered Accountants.*)

CHAPTER VI

Joint Stock Companies—III

The Annual Report and Accounts.

The Act of 1929 requires the directors of every company, at some date not later than eighteen months after the incorporation of the company, and subsequently once at least in every calendar year, to lay before the company in general meeting a Profit and Loss Account or, in the case of a company not trading for profit, an Income and Expenditure Account for the period, in the case of the first account, since the incorporation of the company, and, in any other case, since the preceding account, made up to a date not earlier than the date of the meeting by more than nine months, or, in the case of a company carrying on business or having interests abroad, by more than twelve months. The Board of Trade, if for any special reason it thinks fit to do so, may, in the case of any company, extend the period of eighteen months mentioned above, and in the case of any company and with respect to any year extend the periods of nine and twelve months. (S 123.)

The directors must cause to be made out in every calendar year, and to be laid before the company in general meeting, a Balance Sheet as at the date to which the Profit and Loss Account (or Income and Expenditure Account) is made up.

There must be attached to every such Balance Sheet a Report by the directors with respect to the state of the company's affairs, the amount, if any, which they recommend should be paid by way of dividend, and the amount, if any, which they propose to carry to the reserve fund, general reserve, or reserve account shown specifically on the Balance Sheet, or to a reserve fund, general reserve, or reserve account to be shown specifically on a subsequent Balance Sheet (S. 123). A Holding Company must also annex to its Balance Sheet a statement as described on p. 314.

In the case of every company not being a private company, a copy of every Balance Sheet, including every document required by law to be annexed thereto (these do not include the Profit and Loss Account), which is to be laid before the company in general meeting, together with a copy of the auditors' Report, must, not less than seven days before the date of the meeting, be sent to all persons entitled to receive notices of general meetings of the company. Any member, and any holder of debentures of the company, is entitled to be furnished on demand without charge with a copy of the last Balance Sheet of the company, including every document required by law to be annexed thereto, together with a copy of the auditors' Report on the Balance Sheet. The

RAYON D'OR, LIMITED.

REPORT OF THE DIRECTORS.

To be submitted to the shareholders at the

FIFTEENTH ANNUAL GENERAL MEETING.

To be held at

WINCHESTER HOUSE, OLD BROAD STREET, E.C.,

on Thursday, January 18, 19 ., at 12 o'Clock Noon.

The Directors have pleasure in submitting their Report for the year ended December 31, 19...

	£ s. d.	£ s. d.
The annexed Accounts show that a profit has been made during the year of ..		238,724 15 8
From which must be deducted Directors' and Auditors' Fee, Debenture Interest, and amount written off for Depreciation on Buildings and Machinery		75,857 7 8
		162,867 8 0
To which has to be added— The amount brought forward from 19..		69,729 16 9
Making a Total of		232,597 4 9
Deducting—		
Income Tax	28,754 11 10	
Transfer to Reserve in respect of Depreciation of Trustee Securities	2,800 13 0	
Transfer to Reserve Account	25,000 0 0	
Transfer to Staff Pension Fund	5,000 0 0	
Dividend on Preference Shares to December 31, 19..	9,000 0 0	
Interim Dividend on Ordinary Shares	10,000 0 0	80,555 4 10
Leaving an available balance of ..		152,041 19 11
The Directors recommend the payment of a final Dividend on the Ordinary Shares of 10 %, less Income Tax, making 15 % for the year; and also a Bonus of 10s. per Share, less Income Tax. This will require		40,000 0 0
Leaving to be carried forward to next year		£112,041 19 11

The sales have been well maintained, and show an improvement upon those of any previous year.

The retiring Directors are Mr. White and Mr. Black. They are both eligible, and offer themselves for re-election.

The Auditors of the Company, Messrs Checker & Co , also retire, and offer themselves for re-election.

By order of the Board,

WM. BLANK,

January 10, 19... *Secretary.*

copy must be furnished within seven days after the demand is made [S. 130, s.-s. (1)].

Any member of a private company is entitled to be furnished, within seven days after he has made a request in that behalf to the company, with a copy of the Balance Sheet and Auditors' Report at a charge not exceeding sixpence for every hundred

words [S. 130, s.-s. (2)]. It has already been observed that a copy of the last Balance Sheet, including every document required by law to be annexed thereto (not including the Profit and Loss Account) and a copy of the Auditors' Report, must be filed by public companies as an essential part of the Annual Return (S. 110).

The Report.

As a general rule, the Report issued to shareholders is very brief, and is confined to a summary of the results of the year's trading, with or without a comparison with previous years; an indication of the company's future policy and prospects; and a statement showing the balance available for dividend, and its allocation. The specimen of an actual Report at p. 347 will give the student a good idea of the character of these documents.*

The Profit and Loss Account.

In non-trading or philanthropic undertakings, such as clubs and hospitals, the Profit and Loss Account is usually, and more suitably, named the Income and Expenditure Account. The term Revenue Account is sometimes employed in similar circumstances, and also by assurance companies, some trust companies, and by companies working under the double account system. The object of all these statements is to determine the net profit or revenue for the period covered by the account The Profit and Loss Account of a commercial undertaking is usually divided into at least three sections, viz. the Trading or Manufacturing Account, the Profit and Loss Account, and the Appropriation Account. It is assumed that the student is familiar with the construction of Trading and Profit and Loss Accounts, but a few brief notes on some of the matters connected with them may not be out of place.

Trial Balance.—The final step prior to the preparation of the annual accounts is the extraction and agreement of the Trial Balance. It may be remarked that, when the ledger balances are very numerous, it is sometimes convenient to prepare the Trial Balance in three sets of double columns for the debits and credits relating to (*a*) the Trading Account; (*b*) the Profit and Loss Account; and (*c*) the Balance Sheet. This method tends to facilitate the preparation of the accounts.

Trading Account.—The Trading Account should be credited with all sales (less returns) and the final stock, and debited with the commencing stock and all purchases (less returns) in the case of a merchant business, or with every direct cost of production in the case of a manufacturing business. The account should be prepared on a consistent basis year by year, otherwise the chief advantage of the account, viz. that it affords a progressive comparison of its component items by means of gross percentages, will be lost. Sometimes charges which do not vary with the turnover, such as depreciation, repairs, etc., are included in this section.

* Imaginary names have been substituted for those in the actual report.

It is suggested that, for purposes of comparison, gross profits are more reliable when the charges are confined to such items as vary directly with the turnover. But when all is said and done, the chief point to ensure is consistency, in order that comparisons between trading periods may be reliable.

Care should be taken that all amounts included in the stock valuation have been passed through the books, particularly in cases where the custom of post-dating invoices obtains. No undelivered goods should be treated as sales, unless there is good reason for the non-delivery. Goods "on appro." and "on consignment" should be treated as stock and valued as such. All stock should be valued on a uniform basis year by year. The basis varies with different trades, but usually it is either (*a*) cost price, less deduction for damaged or obsolete stock; or (*b*) market price, if that should appear to be permanently less than cost. When the value of the stock, as disclosed by stocktaking, is widely divergent from that normally held, the divergence should be carefully investigated. All inwards returns for the period must be credited to the customers concerned, and also be taken into stock.

The trading or working accounts of a public limited company are issued to shareholders only on rare occasions. There is a growing tendency to curtail the information granted to shareholders, at least so far as trading details are concerned. It must be conceded that, in some cases, full disclosure of the economic working of a business to trade rivals would be harmful, but when reticence passes into secretiveness it may become an abuse. In any case, so long as the Act is complied with, this is not a matter within the auditor's control, as some critics seem to suppose, unless, of course, the brevity of the accounts is such that misrepresentation may result. A notable exception to the prevailing tendency is afforded by the accounts of life assurance companies, amongst whom keen competition exists. As the student knows, the Statutory Accounts of those companies contain ample detail. Subject to the Articles, the statute does not compel Directors to circulate to the members anything more than a Balance Sheet and its annexed documents

Theoretically, the Trading Account is assumed to show the turnover of a business, and the gross profit earned on it, while the Profit and Loss Account discloses the outgoings and expenses incurred in earning the gross profit, and the resultant net profit or loss. But in practice many companies include in the Trading Account items which private traders would include in the Profit and Loss Account, so that the "Balance brought forward from Trading Account," which is frequently the only reference to trading which the member sees, conveys very little information. The average member is, however, far more interested in the dividend-paying power of a company than in the trading details. The Profit and Loss Account is therefore to him the more interesting document, but in this case also he very seldom sees the account in its entirety. He can, of course, demand fuller information at the annual meet-

ing, but efforts in this direction do not often meet with much success.

Profit and Loss Account.—All accrued liabilities must be provided for. Outstanding liabilities are most likely to consist of such expenses as rent and rates, purchases not passed through the books, legal and trade expenses, carriage, freight, travellers' expenses and commission, interest on debentures and loans, and similar charges. Outstandings of this kind should be passed into the books and transferred in due course either to the Profit and Loss Account or to the Trading Account as the case may require. All accrued income must be treated in like manner. Book debts must be scrutinised and provision be made for those that are bad or doubtful. All wasting assets must be reviewed, and full depreciation be written off.

The total of the amount paid to the directors as remuneration for their services, inclusive of all fees, percentages, or other emoluments, paid to or receivable by them by or from the company, or by or from any subsidiary company, must be disclosed. The remuneration paid to managing directors, and to other directors in respect of other offices held, need not be disclosed (S. 128).

The following Profit and Loss Account, as published by a company with a capital of £7,000,000—is typical of modern tendencies.

PROFIT AND LOSS ACCOUNT,

For the Period ended December 31, 19..

	£	s.	d		£	s.	d.
Interest on Employee's Investment Account ..	1,892	8	3	Profit on Trading and Interest on Bank Accounts, etc, after deducting all Expenses, Remuneration of Management, Depreciation of Buildings, Machinery and Plant, etc	916,550	19	7
Directors' Fees ..	7,342	7	9	Profits of Affiliated Companies earned prior to their reorganisation and received by way of Dividends and Premiums on sales of Shares therein	104,512	9	2
The fees paid by Affiliated Companies to such Directors of those Companies as were also Directors of this Company amounted *to £6,296*				Sundry Profits, Rents, Transfer Fees, etc. ..	1,678	2	0
Balance, being Profit for the Period	1,013,506	14	9				
£	1,022,741	10	9	£	1,022,741	10	9

The Appropriation Account.—The final section of the Profit and Loss Account is called the Appropriation Account, or the Net Profit and Loss Account. Against the balance brought forward to this account are charged any appropriations which may have been made to Reserve, or other provision accounts, and any interim dividends paid during the year. If the management is entitled to a commission on the net profits, it will appear as a charge in this section. The balance of this section of the account shows the amount of undistributed profit available for dividend. This figure will probably appear also in the body of the Report, together with a statement of the Directors' recommendations for its disposal (*see example at p.* 347).

Preparing Accounts for Directors.—When preparing Trading and Profit and Loss Accounts for the information of the Directors full detail should be given. Additional columns showing the increases or decreases on the various items as compared with the previous year are advantageous. So, too, are similar comparisons of the percentage of gross and net profit, and of the percentage of expenses (in total, or item by item). These percentages are generally based upon the net turnover. Occasionally the accounts are prepared in tabulated form, and cover three or more years, for the purpose of comparison. Such elaboration of detail may, of course, be carried too far, but the intelligent accountant will take pride in furnishing his Directors with the utmost amount of useful information that it lies in his power to give. When the detailed accounts have been passed by the Directors, a further set of accounts in modified form is prepared. The condensation of accounts requires discrimination. On the one hand, too much information must not be disclosed to trade rivals, and, on the other, it must be remembered that the members are entitled to reasonable information concerning their property As already stated, the modern Profit and Loss Account, as usually published, exhibits the maximum of condensation and the minimum of information. Usually no indication of turnover or of the cost of production and distribution is given, although some of the large Stores are now setting a notable example in the disclosure of details.

Directors' Recommendations.—When the Profit and Loss Account has been completed by the company's accountant, it is considered by the Directors, who decide upon the recommendations to be made at the annual meeting of the shareholders for the disposal of the available balance. Such allocations as, by the Articles, lie within the absolute discretion of the Board, e.g. transfers to Reserve, are effected prior to the issue of the accounts to the shareholders. Recommendations as to dividend, which need the sanction of the members, should be set out in the report only, and should not be incorporated in the accounts placed before the annual meeting as they sometimes erroneously are.

Illustration.—After providing for debenture interest, the profit shown by the Profit and Loss Account of Rayon d'Or, Ltd., for the year ended December 31, 19 ., amounted to £40,000. This, with the balance of £5,000 brought forward from the previous year, made a sum available for distribution of £45,000. The Directors decided to dispose of this balance as follows:—

	£
To recommend the payment of the half-year's dividend at $2\frac{1}{2}$ % on the £100,000 5 % Preference Stock	2,500
To transfer to Reserve Account, making that account £20,000 in all	10,000
To write off the balance of Preliminary Expenses Account ..	5,000
To recommend the payment of a dividend of 10 % (free of Income Tax) on the £200,000 Ordinary Shares	20,000
To carry forward to next year..	7,500
	£45,000

Show the necessary entries in the Company's books after the above recommendations have been carried into effect. Assume the tax payable on the preference dividend to be £562 10s., and that the dividends were duly paid on January 31, 19...

RAYON D'OR, LIMITED.

LEDGER.

Profit and Loss Account.
(Appropriation Section.)

Dr.			£	s.	d.				£	s.	d. Cr.
19.. Dec 31	To Reserve Account		10,000	0	0	19... Dec. 31	By Balance brought forward		40,000	0	0
" "	" Preliminary Expenses Account		5,000	0	0	" "	" Balance from last year .. £25,000 *Less* Dividends paid 20,000		5,000	0	0
Jan 31	" Dividend on Preference Shares		2,500	0	0						
" "	" Dividend on Ordinary Shares .		20,000	0	0						
" "	" Balance carried down		7,500	0	0						
		£	45,000	0	0			£	45,000	0	0
						19... Feb 1	By Balance brought down		7,500	0	0

Reserve Account.

Dr.			£	s.	d.				£	s.	d. Cr.
						19.. Jan 1	By Balance brought forward . .		10,000	0	0
						Dec. 31	" Profit and Loss Account . ..		10,000	0	0
								£	20,000	0	0

Preliminary Expenses Account.

Dr.			£	s.	d.				£	s.	d. Cr.
19.. Jan 1	To Balance brought forward ..		5,000	0	0	19 Dec. 31	By Profit and Loss Account		5,000	0	0

Preference Dividend Account.

Dr.			£	s.	d.				£	s.	d. Cr.
19 Jan. 31	To Income Tax Account		562	10	0	19... Jan 31	By Profit and Loss Account .. .		2,500	0	0
" 31	" Cash		1,937	10	0						
			£2,500	0	0				£2,500	0	0

Ordinary Dividend Account.

Dr.			£	s.	d.				£	s.	d. Cr.
19.. Dec. 31	To Cash		20,000	0	0	19... Dec 31	By Profit and Loss Account		20,000	0	0
		£	20,000	0	0			£	20,000	0	0

Income Tax Account.

Dr.			£	s.	d.				£	s.	d. Cr.
						19... Dec 31	By Preference Dividend Account ..		562	10	0

WHAT IS THE PROFIT OF A COMPANY?

A Profit and Loss Account raises the wide question: "What is the profit of a company?" The mass of somewhat conflicting opinion resulting from the frequent discussion of this question, although it is doubtless instructive and interesting, tends, perhaps, to confuse rather than help the student in the early stages of his career. But it will at once be recognised that a limited company is in a different position from a partnership. Partners may make any financial arrangements they like, however unwise they may appear to be to outside critics; but a limited company, if it is to continue to enjoy the advantages of the Companies Act, must observe the statutory obligations designed for the protection of those who extend credit to the company.

One of the main points at issue, from the student's standpoint, is whether, and to what extent, it is necessary to maintain capital intact by meeting all known waste by means of depreciations, reserves, or other processes. While every sound man of business would unhesitatingly affirm that all waste must be provided for, if capital is to be fully preserved and financial stability ensured, it cannot be claimed that this is also the legal view in all circumstances. The decisions in several cases that have an enduring interest for the professional accountant tend to show that, from the legal point of view, such provision has not always been held to be compulsory prior to the distribution of profits (*Lee* v. *Neuchatel Asphalte Co., Ltd.* [1889], 41 Ch. D. 1; *Bolton* v. *Natal Land and Colonisation Co.*, [1892] 2 Ch. 124; *Verner* v. *The General and Commercial Investment Trust, Ltd.*, [1894] 2 Ch. 239; *Wilmer* v. *McNamara & Co, Ltd.*, [1895] 2 Ch. 245).

The above cases have been considered not to furnish such strong authority for this contention as they did prior to the decision in *Dovey* v. *Cory, National Bank of Wales Case*, [1901] App. Cas. 477. But the judgments in *Ammonia Soda Company, Ltd.*, v. *Chamberlain and Others*, [1918] 1 Ch 266, show that their authority still holds good. In the Dovey case it was sought to make a Director personally liable for the payment of dividends out of capital on the ground that, owing to the dishonesty of an official of the company, large bad debts had been treated in the accounts as being good. The Director was exonerated by the Court of Appeal on the ground that officials whom he was entitled to trust had deceived him, and that in view of the decision in *Lee* v. *Neuchatel*, etc., the dividends had not in fact been paid out of capital. The House of Lords upheld the ruling that the Director was entitled to rely on the representations of the officials of the company, but expressed no opinion whether the dividends in question had or had not been paid out of capital Although no direct decision was given upon the latter point, remarks made by Lords Halsbury and Davey would seem to throw doubt on the finality of the decisions in *Lee* v *Neuchatel*, etc., and the other cases cited above. Lord Macnaghten, in the course of the case, said:—

"I do not think it desirable . . . to formulate precise rules for the guidance or embarrassment of business men for the conduct of business

affairs. . . . I think there never will be much difficulty in dealing with any particular case on its own facts and circumstances, and . . . I rather doubt the wisdom of attempting to do more "

Lee case ([1889] 41 Ch. D. 1). In this case the circumstances were somewhat peculiar. The company was formed to work a bituminous quarry—obviously a wasting property—and the Articles did not contain provisions binding the Directors to make any reserves for renewing or replacing the leases. Lee, on behalf of the ordinary shareholders, sought to restrain the Directors from paying a preference dividend, on the ground that proper provision had not been made for the wasting nature of the property. Apart from such provision, the company's accounts showed an excess of income over expenditure of £17,000. The Court held that the company could distribute a dividend without making good the depreciation on the wasting assets. In giving judgment, Cotton, L.J., said:—

" It was not necessary that the Directors should set apart each year a sum to answer the supposed annual diminution of this property by reason of its wasting nature . . . It would be wrong for the Court to interfere to prevent the payment of the proposed dividend."

Lindley, L.J., said (p. 21):—

" It is not a subject for an Act of Parliament to say how accounts are to be kept; what is to be put into a capital account, what into an income account, is left to men of business."

And at p. 24:—

" If a company is formed to acquire or work property of a wasting nature, e g a mine, quarry, or a patent, the capital expended in acquiring the property may be regarded as sunk and gone, and if the company retains assets sufficient to pay its debts, it appears to me that there is nothing whatever in the Act to prevent any excess of money obtained by working the property over the cost of working it, from being divided amongst the shareholders, and this, in my opinion, is true although some portion of the property itself is sold, and in some sense the capital is thereby diminished."

In the *Bolton* case, ([1892] 2 Ch. 124), it appeared that in 1882 the company had debited the Profit and Loss Account with a bad debt amounting to £70,000, crediting the account at the same time with an estimated appreciation in the value of their lands amounting practically to the same sum. In 1885, when profits were made, it was sought to restrain the payment of a dividend on the ground that the book value of the land was excessive and should be written down prior to the payment of a dividend. The Court held that even if the book value was excessive, and capital had therefore been lost, it was not sufficient ground to restrain the payment of a dividend out of current profits.

In the *Verner* case, ([1894] 2 Ch. 239), plaintiff sought to restrain the payment of a dividend by the defendant investment company because no provision had been made for depreciation of over £240,000 that had taken place in the market price of the company's investments, £75,000 of which, it was contended, had been hopelessly lost. Apart from provision for this depreciation, the company's accounts showed an excess of current income over

current expenditure of £23,000. The Court held that in the circumstances the company could pay a dividend out of its surplus current income without replacing the lost capital. Lindley, L.J., said (p. 264) :—

> "The broad question raised by this appeal is whether a limited company which has lost part of its capital can lawfully declare or pay a dividend without first making good the capital which has been lost. I have no doubt it can ; that is to say, there is no law which prevents it in all cases and under all circumstances. Such a proceeding may sometimes be very imprudent ; but a proceeding may be perfectly legal, and may yet be opposed to sound commercial principles."

And again (p. 266) :—

> "Perhaps the shortest way of expressing the distinction which I am endeavouring to explain is to say that fixed capital may be sunk and lost, and yet that the excess of current receipts over current payments may be divided ; but that floating or circulating capital must be kept up, as otherwise it will enter into and form part of such excess, in which case to divide such excess, without deducting the capital which forms part of it, will be contrary to law."

In the *Wilmer* case, ([1895] 2 Ch. 245) the ordinary shareholders sought an injunction to restrain the Directors from paying a dividend to the preference shareholders, on the ground that no provision had been made for the depreciation disclosed by a recent valuation of some of the company's assets. The company was in business as general carriers, and the assets in question consisted of Goodwill, Leasehold Premises, Horses, Vans and Plant. Apart from the necessity to provide for such depreciation, funds were available for the proposed dividend, a profit of nearly £6,000 being shown by the accounts. The Court held that the company could pay a dividend out of current profits without replacing loss on fixed assets. Stirling, J., said :—

> "It is necessary to consider whether the depreciation in Goodwill and Leaseholds is to be treated as loss of 'fixed' capital or of 'floating or circulating' capital, to use the two contrasted expressions of Lindley, L.J. Depreciation of Goodwill seems to me to be loss of 'fixed' capital. I think, therefore, that the Balance Sheet cannot be impeached by reason of its not charging anything against the receipts of the year in respect of depreciation of the value of the Goodwill."

Bond v. *The Barrow Hæmatite Steel Co., Ltd.*, ([1902] 1 Ch. 353), decided after the case of *Dovey* v. *Cory*, was the reverse of the *Wilmer* case. In this case preference shareholders sought to compel Directors to pay arrears of dividend on their shares on the ground that the loss of fixed capital need not be made good. The Company's Profit and Loss Account showed a considerable credit balance, but the Directors proposed to postpone the payment of dividends on the ground that expert valuation proved that heavy depreciation had taken place in the company's land, buildings, fixed plant, mining leases, etc. The Court held that the Directors could not be compelled to pay the preference dividend before making such reserves as they considered necessary. Farwell, J., said (p. 364) :—

"It has been proved to my satisfaction that the company has sustained an actual loss of capital exceeding £200,000, and has also lost capital by estimate and valuation to an amount exceeding £50,000. The various sums claimed by the plaintiffs as available to pay their dividends amount to about £240,000. If, therefore, these ascertained and estimated losses have to be made good before any dividend can properly be paid, there are obviously no funds out of which to pay dividends The defendants allege and the plaintiffs deny that the company are bound to make good these losses before paying any dividend. The question is one of very considerable difficulty on the authorities, but the result of these authorities is, in my opinion, that there is no hard and fast rule by which the Court can determine what is capital and what is profit. . . ."

And at page 368 :—

"The Courts have no doubt, in many cases, over-ruled Directors who proposed to pay dividends, but I am not aware of any case in which the Court has compelled them to pay when they have expressed their opinion that the state of the accounts did not admit of any such payment In a matter depending on evidence and expert opinion it would be a very strong measure to over-ride the Directors in such a manner."

In the case of *In re Spanish Prospecting Company, Ltd.*, ([1911] 1 Ch. 92), Moulton, L.J., discussed at some length the meaning of the word "profits" (p. 98) :—

"The word 'profits' has, in my opinion, a well-defined legal meaning, and this meaning coincides with the fundamental conception of profits in general parlance, although in mercantile phraseology the word may at times bear meanings, indicated by the special context, which deviate in some respects from this fundamental signification. 'Profits' implies a comparison between the state of a business at two specific dates usually separated by an interval of a year. The fundamental meaning is the amount of gain made by the business during the year. This can only be ascertained by a comparison of the assets of the business at the two dates. For practical purposes these assets, in calculating profits, must be valued and not merely enumerated. . . ."

And (p. 99) :—

"We start therefore with this fundamental definition of 'profits'—namely, if the total assets of the business at the two dates be compared, the increase which they show at the latter date as compared with the earlier date (due allowance, of course, being made for any capital introduced or taken out of the business in the meanwhile) represents, in strictness, the profits of the business during the period in question.

"But the periodical ascertainment of profits in a business is an operation of such practical importance as to be essential to the safe conduct of the business itself. To follow out the strict consequences of the legal conception, in making out the accounts of the year, would often be very difficult in practice. Hence the strict meaning of the word 'profits' is rarely observed in drawing up the accounts of firms or companies. These are domestic documents, designed for the practical guidance of those interested, and so long as the principle on which they are drawn up is clear, their value is diminished little, if at all, by certain departures from this strict definition which lessen greatly the difficulty of making them out. Hence certain assumptions have become so customary in drawing up balance sheets and profit and loss accounts that it may almost be said to require special circumstances to induce parties to depart from them. For instance, it is usual to exclude gains and losses arising from causes not directly connected with the business of the company, such, for instance, as a rise in the market value of land occupied by the company. The value assigned to trade buildings and plant is usually fixed according to an arbitrary rule, by which they are originally taken at their actual cost and are assumed to have depreciated by a certain percentage each year, although it cannot be pretended that any such

calculation necessarily gives their true value either in use or in exchange. These, however, are merely variations of practice by individuals They rest on no settled principle. They mainly arise from the sound business view that it is better to under-rate than to over-rate your profits, since it is impossible for you to foresee all the risks to which a business may in future be exposed. For instance, there are many sound business men who would feel bound to take account of the depreciation in value of business premises (or in the value of plant specially designed for the production of a particular article) although they would not take account of appreciation in the same arising from like causes.

"To render the ascertainment of the profits of a business of practical use, it is evident that the assets, of whatever nature they may be, must be represented by their money value. But as a rule those assets exist in the shape of things or rights, and not in the shape of money. The debts owed to the company may be good, bad, or doubtful. The figures inserted to represent stock-in-trade must be arrived at by a valuation of the actual articles. Property, of whatever nature it be, acquired in the course of the business has a value varying with the condition of the market. It will be seen, therefore, that in almost every item of the account a question of valuation must come in. . . . It is not to be wondered at, therefore, that in many cases companies that are managed in a conservative manner avoid the difficulty thus presented, and content themselves by referring to assets of a speculative type, without attempting to affix any specific value to them. . . . Profits may exist in kind as well as in cash . . . (p. 101) But although there is a wide field for variation in these estimations of profit in the domestic documents of a firm or a company, this liberty ceases at once when the rights of third persons intervene. . .

"I would have it clearly understood that these remarks have no bearing upon the vexed question of the fund out of which dividends may legally be paid in limited companies Cases such as *Verner* v. *General and Commercial Investment Trust* and *Lee* v. *Neuchatel Asphalte Co., Ltd.*, show that this fund may, in some cases, be larger than what can rightly be regarded as profits, and the decisions in these cases depend largely upon the fact that there is no statutory enactment which forbids it to be so."

The Ammonia Soda Company, Ltd. v. *Chamberlain*, ([1918] 1 Ch. 266). This was an action brought by the plaintiff company against defendants who were former directors of the company asking that they might be declared liable to refund to the company sums amounting to £12,468 10s. 4d. applied by them in paying dividends on the share capital.

A private company was incorporated in 1908 to acquire a freehold estate and works erected thereon for the manufacture of chemicals. In October 1911 the company was converted into a public company, the capital being increased by the creation of 150,000 6 % Preference Shares of £1 each. Shortly before the conversion of the company into a public company the directors passed the following resolution: "That having regard to the various boreholes that have now been made, and the amount of knowledge that has been acquired of the brine and salt land, it is desirable to make a revaluation of the land." Two of the directors, neither of whom were experts, were appointed to report, with the result that the property account was appreciated in the Balance Sheet of July 31, 1911, to the extent of £20,542 2s 8d. That sum was credited to a reserve account, and was used to cancel (*a*) the debit balance of the Profit and Loss Account,

£12,970 18s. 3d.; (*b*) the goodwill account, £1,500; and (*c*) an account representing a cash bonus amounting to £1,980 paid upon the acceptance of shares in satisfaction of debentures—practically a premium on the redemption of the debentures. The balance of £4,091 4s. 5d. was left to the credit of the reserve account, and in a subsequent account was used to reduce the balance of the property account. The accounts made it quite clear that the trading losses had been eliminated by bringing into account the unrealised capital profit arising out of the revaluation of the company's property. The report of the company's auditors attached to the Balance Sheet detailed these transactions and stated that, "subject to the foregoing, in our opinion the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs." From September 1912 to April 1915 dividends amounting to £12,468 10s. 4d. were paid on the preference shares, the previous trading loss, which had been eliminated as above mentioned, being ignored.

It was contended for the plaintiffs that the revaluation of the land was not genuine, that it was made with an improper motive by persons without the necessary knowledge and on an unreasonable basis, that the debit balance of the Profit and Loss Account should have been wiped out before dividends were paid, and that as this had not been done the dividends were paid out of capital and the Directors were liable to replace them. For the defendants, it was argued that plaintiffs must prove that what was done was *ultra vires* the company, and that the dividends were in fact paid out of capital. Assuming that the Directors were wrong in their revaluation, if the Court saw that they had acted fairly and reasonably it would be slow to make them liable.

In a long written judgment Peterson, J., said that the plaintiff's claim was based upon two grounds: (*a*) that the payments (dividends) were made out of capital, and (*b*) that they were not made out of available profits. He exhaustively reviewed the facts and expert evidence, and the judgments in the *Lee* v. *Neuchatel* series of cases, and found as follows (p. 271):—

"The directors were not guilty of any *mala fides* in the matter of the revaluation. . . . The directors, no doubt, would have been better advised if they had obtained a revaluation from some expert valuer. . . . But there is no rule of law which requires directors to obtain outside assistance in such matters or prevents them from valuing the property themselves, provided, of course, that they act honestly in doing so. . . . The directors . . . in my view, honestly entertained the view that the land in 1911 had largely increased in value, and the plaintiff company in general meeting adopted their views knowing that the valuation had been made by the directors, and knowing, as they must have known, that the directors who had made the valuation were not professional valuers . . . there is not any ground for suggesting that any facts were concealed from the shareholders by the directors In these circumstances it is not, in my opinion, open to the company to attack the directors for an honest though it may be erroneous estimate, which has been expressly adopted by the company in general meeting after the attention of its shareholders had been pointedly called to the resolution by the auditors' certificate which was attached to the Balance Sheet.

"It was contended, however, that there was no justification for the payment of the dividends in question even if the valuation was honest

and even if in its result it was correct. Mr. Gore-Browne [one of the plaintiffs' counsel] said that the essential question was whether or not capital assets could be written up so as to justify payment of a dividend, that the valuation, however careful, . . . was not a justification for paying dividends, that the Profit and Loss Account was a continuous account which was always open, and that there was no profit on it until all past losses had been worked off. My attention was directed to a long series of cases which dealt with the method in which a company's accounts ought or ought not to be kept. . . . I have before me, however, the warning of Lord Halsbury and Lord Macnaghten in *Dovey* v. *Cory*, and I propose to lay to heart, as far as possible, the example of Lord Macnaghten when he declined to formulate precise rules for the guidance or embarrassment of business men in the conduct of business affairs. . . ."

Foot of page 273 :—

"The question in this case, therefore, is whether . . . an increase in the value of the fixed capital could be taken into consideration for the purpose of wiping out previous losses of paid-up capital. . . . As the law stands at present losses of circulating capital must be made good before there are any profits out of which dividends can be declared. . . . The question whether a similar rule applies in the case of fixed capital appears to be still open. . . . (p. 275) I am not satisfied that the proposition that it is contrary to all principles of commercial accountancy to utilise an increase in the value of a fixed asset for the purpose of getting rid of a debit which represents loss of paid-up capital is not too wide. It may be a precept of prudence and yet be far removed from the sphere of the categorical imperative. Assuming that a company ought . . . to see that its paid-up capital is intact, why should it be absolutely precluded from stating the true value of its assets ? . . . In my judgment, then, the present action fails and must be dismissed with the usual consequences."

In the Court of Appeal ([1918] 1 Ch. 266), where the judgment of Peterson, J., was unanimously confirmed, Swinfen Eady, L.J., said at the conclusion of his judgment :—

"In my opinion the directors in acting as they did were merely stating in their Balance Sheet what upon reasonable grounds they believed to be the real value of their assets. The dividends complained of paid out of net earnings in the subsequent years were not paid out of capital but out of profits, and the defendants were, in my opinion, under no liability to repay them or any part."

Before arriving at this conclusion he discussed the whole question, and said (p. 283) :—

"The plaintiff company contend, however, that although these were net profits earned during the period, they were not available for dividend and cannot really be considered 'profits,' as in the earlier period of the company's history a loss had been incurred, and they contend that until such loss has first been made good there cannot be any 'profits,' in the true sense of the word. In my judgment this argument is unsound and has been exposed again and again. The Companies Acts do not impose any obligation upon a limited company nor does the law require that it should not distribute as dividend the clear net profit of its trading unless its paid-up capital is intact or until it has first made good all losses incurred in previous years. Upon that point it is only necessary to refer to three decisions of the Court of Appeal and one in the House of Lords (*Lee* v. *Neuchatel Asphalte Co.*; *Verner* v. *General and Commercial Investment Trust*; *in re National Bank of Wales*; and lastly, the last-mentioned case, which went to the House of Lords under the name of *Dovey* v. *Cory*). . . . (At p. 289) Mr Gore-Brown invited the Court to lay down that wherever there was a debit to the Profit and Loss Account,

irrespective of the way in which it arose, of the stage in the company's operations, and of the nature and business of the company, it was illegal to divide profits subsequently earned without first writing off out of those profits the amount of the debit. To do so would be to fall into an error which Lord Macnaghten pointed out should be avoided, and would only serve to harass and embarrass business men, and impose upon companies a burden which Parliament has abstained from casting upon them."

These judgments appear to strengthen the assumption already made in these pages that the Courts, in the absence of *mala fides*, will decline to interfere with the discretion of business men in matters of commercial accountancy. The author ventures to think, however, that they will not undermine the generally accepted commercial principle that it is imprudent to utilise unrealised appreciations in the value of fixed assets for the purpose of paying dividends.

In the last-mentioned case there was a debit to Profit and Loss Account, and to the extent of that debit the share capital of the company had been lost, and as cash dividends were paid out of subsequent trading profits before the accumulated trading losses were made good, such payments were made at the expense of the share capital. The loss was a trading loss and not a capital loss, but, in the net result, the dividends were paid out of unrealised capital profits which had been utilised to wipe out trading losses. The share capital of a limited company can only be written off after costly legal process, and the prudent practice when losses of capital occur is to make them good out of revenue, unless, of course, the deficiency is so heavy that a drastic reduction of capital is imperative, in which event the procedure explained at pp. 280–3 must be followed.

The *Ammonia Soda* case was followed in *Stapley* v. *Read Bros.* ([1924] 1 Ch. 1), where it was also decided that where a company has written down the value of its fixed assets out of divisible profits, so long as it has not made that reserve for all time and in all circumstances, there is nothing to prevent the company from writing back the depreciation so written off (see p. 370).

The Effect of the Decisions.—Even the bare outline of the important decisions as given above will immediately convince the student of the unwisdom of dogmatic statements, encouraged, doubtless, by unpractical text-books, that such and such provisions *must* be made prior to the payment of dividends. Consideration of the cases will lead to the conclusion that, whereas the depreciation in floating assets must be made good, in certain circumstances the Court will not compel provision to be made for wasting fixed assets prior to the payment of dividends. But although the Court will not necessarily insist upon such provision prior to the division of profits, directors will not be compelled to pay dividends if they deem it desirable to retain profits for the purpose of making such provision. In short, so long as the interests of the company's creditors are safeguarded, matters of financial prudence are left largely to the discretion of those responsible for the management of the company, and the judgment of the Court upon any particular course of action in these respects will involve consideration of the precise circumstances of the case.

The Commercial Point of View.—The student should, however, clearly understand that the summary above applies solely to the *legal* aspect of the matter. Fortunately, the *commercial* view is quite different. The necessity to provide for depreciation and capital waste remains an article of faith to the sound business man, and, unaffected by the legal decisions quoted above, he still regards such provision as an essential element of public policy, From his point of view, net profit is the profit which remains after provision for all ascertained losses has been made, and this, as we have seen, may in some cases be a far smaller sum than the amount which could be legally distributed as dividend.

Depreciation of Floating Assets.—It will be noted that the cases quoted above deal for the most part with waste in connection with fixed assets. In no case was depreciation in respect of floating assets held to be unnecessary. Indeed, in the *Verner* case, Lindley, L.J., expressly said that though fixed capital may be sunk and lost and the excess of current receipts over current payments may nevertheless be divided, yet floating or circulating capital must be kept up.

Paying Dividends out of Capital.—The rule that dividends may not be paid out of capital is a general rule of law. The declaration that dividends shall be paid only out of profits is derived from Table A or the special Articles of the company, but it is so usual an article as to have become an axiom of company finance. The rule and the declaration are not identical. The rule is plain and easily approved, but, as Halsbury, L.C., said in *Dovey* v. *Cory*, "It is easy to lay down that you must not pay dividends out of capital, but the application of that very plain proposition may raise questions of the utmost difficulty in their solution." And again: "It is doubtful whether such questions can ever be treated in the abstract at all." From the fact that the law provides no abstract rules for guidance in these matters, it is safe to assume that the decision in any particular case will rest upon a review of the whole circumstances and the particular merits of the case. The cases already quoted show quite clearly that the surplus which is legally available for dividend is not necessarily the true net profit consonant with sound financial policy. The latter can be ascertained only after due provision has been made for capital waste. The various kinds of waste which occur, and the methods of providing for them, are treated in Chapter III. In addition to making due provision for the waste which has taken place in assets utilised in earning the revenue of the company, items such as bad debts, etc., must be charged in the Profit and Loss Account.

Necessity for Exactitude.—In providing for waste and depreciation in the accounts of a limited company, exactitude is far more necessary than in the case of a private trader. Since the private trader is the sole owner of his business, he can reduce the book value of any asset at any time by debiting his capital account and crediting the asset account with the amount of the estimated waste. But no such process is possible to a limited

company, and, moreover, the proprietorship is constantly changing. Provision for waste must always be effected through the Profit and Loss Account, and the rights of the members must be carefully considered. Where the depreciation is serious, the wisest course to take in most cases is to reduce the capital of the company under the powers conferred by statute, in order to adjust the altered value of the assets

Capital Profits by Appreciation.—Revaluation of a company's fixed assets sometimes discloses an appreciation in value. The question then arises how the increase in value is to be treated. The legal view appears to be that appreciation may not be treated as divisible profit if the assets remain in the company's possession. But provided the surplus remains after a valuation of the whole of the assets, and the assets are actually realised at the enhanced value, then, subject to the provisions of the Memorandum and the Articles, the resulting profit may be divided In *Foster* v. *The New Trinidad Lake Asphalte Co., Ltd*, [1901] 1 Ch. D. 208, Byrne, J., said (p. 212): "It is clear, I think, that an appreciation in total value of capital assets, if duly realised by sale, or getting in of some portion of such assets, may in a proper case be treated as available for purposes of dividend. This, I think, is involved in the decision in the case of *Lubbock* v. *British Bank of South America*, [1892] 2 Ch. D. 198." The decision in the *Ammonia Soda Company's* case (see p. 357) would seem to suggest that in special circumstances actual realisation may not be an essential condition.

The Balance Sheet.

The student is aware that the term "Balance Sheet" presupposes double-entry book-keeping, and that the term "Statement of Affairs," apart from insolvency proceedings, is applied to similar statements resulting from single-entry book-keeping. The term "Statement of Affairs," when used in insolvency proceedings, implies a statement in which the assets are valued at the prices they are expected to realise, the object being to enable creditors to form an opinion of the probable result of an immediate realisation. But a Balance Sheet is prepared from a totally different standpoint, viz. on the basis of a going concern, and not on that of a debtor accounting to his creditors. The liabilities usually differ but little in the two statements, though there may be contingent liabilities which a Statement of Affairs must take into account.

Two Forms of Balance Sheet.—There are two recognised forms in which Balance Sheets are presented, viz. the double-account and the single-account systems. The former is explained and contrasted with the latter in Chapter XI. The double-account system applies chiefly to Parliamentary companies, which are under obligation to publish their accounts in statutory form. The single-account Balance Sheet results from the ordinary double-entry system of book-keeping, and is the common form in which the Balance Sheets of limited companies are presented. With the exception of companies subject to special statutes, no company is committed to any particular form of Balance Sheet.

The Two Sides of the Balance Sheet.—The prevalent British custom is to place the assets on the right-hand and the liabilities on the left-hand side of the Balance Sheet, conformably to the argument that inasmuch as the statement purports to show the financial position of the proprietor of the business, he must be debited with his liabilities and credited with his possessions. In America this practice is reversed, and sometimes the liabilities are entered underneath the assets. In Scotland, also, and on the Continent, many companies place the assets on the left-hand side of the Balance Sheet. The author does not propose to contribute to the vexed controversy as to which side of the Balance Sheet the assets and liabilities should respectively appear on, nor to debate the question whether the Balance Sheet is an account or merely a condensed statement of ledger balances. However interesting such discussions may be, they are not concerned with points of much practical value. The object of a Balance Sheet is to present in a clear, intelligible form the financial state of the business, and, provided this is attained, the precise form of its attainment is of secondary importance. It was a common practice in earlier days actually to close the Ledger into an account called the *Balance Account,* but many years have elapsed since the author last saw such an account. By this process the assets were naturally shown on the left hand and the liabilities on the right. This practice has, however, now been revised in the vast majority of Balance Sheets published in the United Kingdom, a change attributed by some authorities to the forms attached to the Companies Act of 1862.

Balance Sheet Heading.—A note of warning, which extensive experience as an examiner shows to be necessary, must be uttered against heading the Balance Sheet with the legend "for the year ending ...." A Balance Sheet shows the financial position at a particular moment, and does not cover a period as is the case with the Trading and Profit and Loss Accounts.

Marshalling Assets and Liabilities.—Partly with the object of explaining their compilation, and partly to call the student's attention to the wide range of form exhibited in the Balance Sheets of various undertakings, the author set out in *Book-keeping and Accounts* the published accounts of a number of well-known companies. Careful study of such a collection, relating to businesses essentially different, will convince the student of the hopelessness of advocating a stereotyped form of Balance Sheet, which he is somewhat prone to do. But although it was remarked in that volume that there neither was, nor could be, any standard form of Balance Sheet, the student was advised that a consistent and reasonable method of marshalling the assets and liabilities could and ought to be followed.

Analysis of a number of Balance Sheets published by important public companies disclosed the fact that the great majority favoured the method of placing the assets in the order of their permanence and unrealisability, and ranging against them, as far as possible, the capital and relevant liabilities. The alternative method of marshalling the assets in the order of their

realisability, and the liabilities in the order in which they must be met, is generally adopted by, and is suitable for, banks, discount and other financial houses. The student may adopt either the ascending or descending order of realisability, provided he carries out reasonably and consistently the method chosen.

Particulars of Liabilities.—The Balance Sheet must contain such particulars as are necessary to disclose the general nature of the liabilities [S. 124, s.-s. (1)]. These should be sufficiently detailed to enable an intelligent estimate of the company's commitments to be formed. Calls in arrear should be deducted from the particular class of share to which they relate. Calls paid in advance, arrears of debenture or other interest, moneys received in respect of forfeited shares, unclaimed dividends and premiums on shares, should be separately stated.

Loans, whether secured or otherwise, and bank overdrafts should be stated apart from the Sundry Creditors. Where any liability is secured otherwise than by operation of law on any assets of the company, a note must be appended that that liability is so secured, but it is not necessary (though desirable) to specify the assets on which the liability is secured [S. 124, s.-s. (3)]. Indebtedness to subsidiary companies must be stated separately (S. 125).

Particulars of Assets.—The particulars given must be such as are necessary to disclose the general nature of the assets and to distinguish between the amounts respectively of the fixed assets and of the floating assets, and must state how the values of the fixed assets have been arrived at [S. 124, s.-s. (1)]. Like should be grouped with like in order that the adequacy of the reserves provided may be gauged. The basis of valuation of the "floating" assets should also be stated. If it is shown as a separate item in, or is otherwise ascertainable from the books of the company, or from any contract for the sale or purchase of any property to be acquired by the company, or from any documents in the possession of the company relating to the stamp duty payable in respect of any such contract or the conveyance of any such property, there must be stated separately (with the basis of valuation), so far as they are not written off, the amount of the goodwill and of any patents and trade-marks as so shown or ascertained [S. 124, s.-s. (2) (*c*)]. If investments are held, the basis of valuation must be stated, and a note should be added of their aggregate market value as on the date of the Balance Sheet, unless they have been written down to this figure or adequate provision has been made. Investments, representing Sinking or Reserve Funds, should be stated separately from general investments. The item "Sundry Debtors" should be analysed as between trade and loan debtors and bills receivable. Suspense assets, such as Expenses Paid in Advance, Removal Expenses, etc., should be separately stated.

These must be stated under separate headings, so far as they are not written off.

(i) (*a*) The preliminary expenses of the company; (*b*) any expenses incurred in connection with any issue of share capital or debentures [S 124, s.-s. (2)];

(ii) Where a company has paid any sums by way of commission in respect of any shares or debentures, or allowed any sums by way of discount in respect of any debentures, the total amount so paid or allowed, so far as they have not been written off (S. 44);

(iii) The Capital Redemption Reserve Fund raised on the redemption out of profits of Redeemable Preference Shares (S. 46);

(iv) So much as has not been written off of the discount on shares issued under S. 47 [s.-s. (3)];

(v) (*a*) The aggregate amount of shares in subsidiary companies; (*b*) The aggregate amount of indebtedness of subsidiary companies to the company (S. 125);

(vi) The aggregate amount of any outstanding loans (*a*) made for the purchase by trustees of fully-paid shares in the company to be held by or for the benefit of employees of the company (including any director holding a salaried employment or office in the company), and/or

(*b*) made to persons, other than directors, *bona fide* in the employment of the company with a view to enabling those persons to purchase fully-paid shares in the company to be held by themselves by way of beneficial ownership [S. 45, s.-s. (2)].

(vii) The aggregate amount of any loans made to directors or officers by the company or by any other person under a guarantee from or on a security provided by the company; the amount outstanding at the beginning of the period, loans made during the period, amounts repaid during the period and the amounts outstanding at the date of the Balance Sheet being shown [S. 128, s.-s. (1)].

The provisions of s -s. (1) do not apply to any loan made in the ordinary course of business by a company the ordinary business of which includes the lending of money, or any loan made to any employee if the loan does not exceed £2,000 and is certified by the directors of the company to have been made in accordance with any practice adopted or about to be adopted by the company with respect to loans to its employees [S. 128, s.-s. (2)].

Analysis of Assets.—The assets of most companies lend themselves to analysis under the following heads:—

(*a*) *Cash or Cash Articles.*—That is to say, actual cash in hand or current account balances at the bank, and similar liquid items, such as coupons, warrants, money orders, or other articles convertible at will into cash.

(*b*) *Assets Realisable at Short Notice*, such as investments readily realisable on the Stock Exchange, Deposits at Call or Short Notice, Deposit Accounts with Bankers (the latter are frequently treated as cash, owing to the fact that the seven days' notice is rarely enforced), and Short Bills. A term sometimes applied to the (*a*) and (*b*) group of assets, in America, is "Quick Assets."

(*c*) *Assets Needing a Moderate Time for Conversion into Cash*

such as Book Debts, Bills Receivable, Stock on hand, Loans on Mortgage, and unquoted investments.

(*d*) *Fixed Assets*, incidental to production and needing considerable time for realisation, such as Land, Buildings, Plant, etc.

(*e*) *Assets of Doubtful Value except to a Going Concern*, such as Goodwill, and, in many cases, Patents, Trade Marks, Patterns, and Work in Progress.

(*f*) *Unrealisable Assets*, such as Preliminary Expenses, Debenture Discount, Expenses Paid in Advance, Advertising or other development expenditure spread over a period, the debit balance of the Profit and Loss Account, or special losses held in suspense.

The original Table A of the *Companies Act*, 1862, provided a form of Balance Sheet applicable to the companies adopting the Table, or registered without Articles, but the revised Tables A, appended to the Acts of 1908 and 1929 respectively, contain no suggested form of Balance Sheet.

Object of Balance Sheet.—Although the object of every Balance Sheet should be to show clearly and concisely the actual financial position of the undertaking at the date borne by the statement, yet it cannot be said that all published Balance Sheets fulfil this requirement. But the grouping of dissimilar assets, a fruitful source of obscurity, does not appear to be so prevalent as it was, and, as a general rule, the majority of published Balance Sheets may now be said to exhibit commendable clearness of detail. Careful grouping of assets in the Balance Sheet, according to their character, becomes the more necessary to the degree that the information afforded in the average Profit and Loss Account tends to grow less, in order that the shareholders may be in a position to judge whether adequate provision has been made for wastage. Some shareholders are apt to assume that the auditors are responsible for the form in which Balance Sheets bearing their certificate are presented. But the Directors, not the auditors, are the responsible parties. The most that the auditors can insist upon is that the statement shall comply with the regulations of the company and the statutory requirements, and shall reflect the true financial position of the company, and that no material facts are suppressed or misrepresented.

A well-drafted Balance Sheet is particularly acceptable from the debenture holders' and creditors' standpoint. On the other hand, too much detail may defeat the object in view. All that is required is that the information given should be sufficiently particular to enable the character and value of the various assets to be fairly estimated. A *pro-forma* Balance Sheet is given at p. 368–9.

Statement of Capital in Balance Sheet.—The capital of a company may appear in the Balance Sheet under three distinct heads, viz. Nominal, Issued, and Paid-up. The meanings of these terms are explained at pp. 133–5. There may be, and there frequently are, considerable differences between the three amounts, although, in

the majority of commercial companies, the last two usually agree. In the case of banks, the issued capital is generally largely in excess of the paid-up capital, a portion of the amount subscribed, retained as a reserve, being payable only in the event of liquidation.

Reduction of Capital.—The methods of reducing and increasing the capital of a company have already been described (see pp. 278–83). Except as provided for by statute, the capital of a company can only become reduced by reason of trade losses or by the improper payment of dividends out of capital. It is clear that, if the profits of a company are inflated because inadequate (or no) provision has been made for waste, dividends paid out of those inflated profits are wholly or partly paid out of capital. So intimate, in fact, is the relation between the Profit and Loss Account and the Balance Sheet of a limited company that practically no alteration in the value of any asset can occur without affecting both. Whatever the actual present value of the assets of a company may be, they were originally, on paper at any rate, equal to the initial paid-up capital of the company, and no change in this equilibrium can take place except through the medium of the Profit and Loss Account.

"Fixed" and "Floating" Assets.—In view of the fact that the legal and commercial opinions on accountancy questions do not always coincide, it may be of interest to give here the most recent legal definitions of fixed and floating (or circulating) capital as expressed by Swinfen Eady, L.J., in the *Ammonia Soda Company's* case ([1918] 1 Ch. 266, 286) already outlined

"What was fixed capital? That which a company retained in the shape of assets upon which the subscribed capital had been expended, and which assets either themselves produced income independent of any further action by the company, or, being retained by the company, were made use of to produce income or gain profits A trust company formed to acquire and hold stocks, shares, and securities and from time to time to divide the dividends and income arising therefrom was an instance of the former. A manufacturing company acquiring or erecting works with machinery and plant was an instance of the latter. In those cases the capital was fixed in the sense of being invested in assets intended to be retained by the company more or less permanently and used in producing an income

"What was circulating capital? It was a portion of the subscribed capital of the company intended to be used by being temporarily parted with and circulated in business in the form of money, goods, or other assets which, or the proceeds of which, were intended to return to the company with an increment, and were intended to be used again and again and always to return with some accretion Thus the capital with which a trader bought goods, circulated; he parted with it and with the goods bought by it, intending to receive it back again with profits arising from the resale of the goods. A banker lending money to a customer parted with his money and thus circulated it, hoping and intending to receive it back again with interest. He retained more or less permanently bank premises in which the money became 'fixed' capital.

"It must not, however, be assumed that the division into which capital thus fell was permanent. The language was merely used to describe the purpose to which it was appropriated for the time being. That purpose might be changed as often as considered desirable and as the constitution of the bank might allow. Thus bank premises might be sold and the money obtained used as part of the circulating capital of the bank So money used as circulating capital might be expended in acquiring bank premises.

(Pro-forma

RAYON D'OR,

BALANCE SHEET,

	£	s	d	£	s.	d.
CAPITAL —						
Nominal. 100,000 5 % Preference Shares of £1 each	100,000	0	0			
150,000 Ordinary Shares of £1 each	150,000	0	0			
	£250,000	0	0			
Issued: 100,000 5 % Preference Shares of £1 each, fully paid	100,000	0	0			
100,000 Ordinary Shares of £1 each, 10s. per share called up £50,000						
Less calls in arrear 500						
49,500						
Add calls paid in advance 500	50,000	0	0	150,000	0	0
DEBENTURES (Secured).—						
500 5 % Debentures of £100 each				50,000	0	0
TEMPORARY LOANS (if any)						
SINKING FUND for Redemption of Debentures				3,000	0	0
RESERVE ACCOUNT :—						
As per last Balance Sheet	10,000	0	0			
Added this year	2,000	0	0	12,000	0	0
PREMIUM ON SHARES ACCOUNT				2,500	0	0
SUNDRY CREDITORS :—						
Trade Accounts	9,500	0	0			
Bills Payable	3,500	0	0			
Accrued Interest on Debentures *	1,000	0	0			
Commission due to Staff	1,000	0	0			
Unclaimed Dividends	500	0	0	15,500	0	0
PROFIT AND LOSS ACCOUNT :—						
Balance from last year	8,000	0	0			
Net Profit for the year as per Profit and Loss Account	12,000	0	0			
	20,000	0	0			
Less Interim Dividends:						
Preference Shares paid July 1st £2,355						
Ordinary Shares paid July 1st 1,250	3,605	0	0			
	16,395	0	0			
Less Amount transferred to Reserve Account ..	2,000	0	0			
Balance available				14,395	0	0
CONTINGENT LIABILITIES :—						
Uncalled Capital on Investments held .. £1,500						
Bills Receivable under Discount 500						
				£247,395	0	0

* This interest is frequently added to, and extended with, the debenture item.

Balance Sheet.)

LIMITED.

DECEMBER 31, 19...

	£	s.	d	£	s	d
FREEHOLD LAND AND BUILDINGS —						
As per last Balance Sheet, at cost	105,200	0	0			
Additions during the year	5,700	0	0	110,900	0	0
LEASEHOLD LAND AND BUILDINGS.—						
As per last Balance Sheet, at cost less amounts written off in previous years	15,000	0	0			
Additions during the year	500	0	0			
	15,500	0	0			
Less Depreciation of Leases written off during the year*	650	0	0	14,850	0	0
GOODWILL, at cost				10,000	0	0
PATENTS AND TRADE MARKS:—						
As per last Balance Sheet (eight-tenths of original cost)	8,000	0	0			
Less Amount written off during the year	1,000	0	0	7,000	0	0
MACHINERY AND PLANT:—						
As per last Balance Sheet, at cost less depreciation written off to that date	25,000	0	0			
Additions during the year	5,000	0	0			
	30,000	0	0			
Less Depreciation	3,000	0	0	27,000	0	0
LOOSE TOOLS:—						
As per last Balance Sheet, at valuation	1,500	0	0			
Less Amount written off as per valuation	500	0	0	1,000	0	0
FIXTURES AND FITTINGS:—						
As per last Balance Sheet, at cost less depreciation written off to that date	1,200	0	0			
Additions during the year	800	0	0			
	2,000	0	0			
Less Depreciation (as per valuation)	300	0	0	1,700	0	0
HORSES, CARTS AND HARNESS —						
As per last Balance Sheet, at valuation	1,000	0	0			
Less Amount written off as per valuation	100	0	0	900	0	0
STOCK IN HAND	9,400	0	0			
WORK IN PROGRESS	5,400	0	0			
As certified by Departmental Managers and Managing Director						
GOODS ON CONSIGNMENT	1,200	0	0			
CONSUMABLE STORES	1,000	0	0	17,000	0	0
SUNDRY DEBTORS:—						
Trade Accounts	24,800	0	0			
Bills Receivable	1,200	0	0			
	26,000	0	0			
Less Reserve for Bad Debts	1,300	0	0			
	24,700	0	0			
South African Branch	1,200	0	0	25,900	0	0
UNEXPIRED INSURANCES, ETC				200	0	0
INVESTMENTS, at cost or under (Market Price 31/12/19, £21,950)				22,750	0	0
DEBENTURE SINKING FUND — Amount handed to Trustees for Investment, as per terms of Trust Deed (per contra)				3,000	0	0
PRELIMINARY EXPENSES ACCOUNT:—						
As per last Balance Sheet	950	0	0			
Less Amount written off this year	150	0	0	800	0	0
CASH —						
At the Bank:						
Deposit Account	3,000	0	0			
Current Account	1,390	0	0			
In hand	5	0	0	4,395	0	0
				£247,395	0	0

* It is assumed that all leases were reviewed at the close of the year, and due provision made for diminution in value.

"The terms 'fixed' and 'circulating' were merely terms convenient for describing the purpose to which the capital was for the time being devoted when considering its position with respect to profits available for dividend. Thus when circulating capital was expended in buying goods which were sold at a profit or in buying raw materials from which goods were manufactured and sold at a profit, the amount so expended must be charged against or deducted from receipts before the amount of any profit could be arrived at."

The decision in the *Ammonia Soda* case was followed in the case of *Stapley* v *Read Bros., Ltd.*, ([1924] 1 Ch. 1), which is of considerable interest to accountants in connection with the subject of goodwill. An injunction was sought to restrain the defendants (*a*) from distributing a dividend until the debit balance of the Profit and Loss Account had been discharged; (*b*) distributing as dividend profits originally applied to writing down the book value of assets and subsequently written back; (*c*) dealing with any unrealised profit resulting from an estimated appreciation in the value of capital assets.

Goodwill stood originally in the Balance Sheet at £140,000, and was subsequently written down by instalments out of profits to £51,000. A reserve of £61,000 was also created out of profits. Subsequently the balance of the goodwill was written off against this reserve, thus reducing the reserve to £10,000. By the year 1920 the reserve had been increased to £25,000, and a further £15,000 was transferred thereto from the balance of the current Profit and Loss account (£33,000), making the balance £40,000. This balance of £40,000 was then distributed in the form of fully paid shares by way of a capital bonus.

But a period of bad trade was experienced, and at the close of the year 1922 there was a debit balance on Profit and Loss Account of £20,504 16s. 6d. A profit of £1,300 was made in the year 1923, but three years' preference dividends were in arrear. The directors proposed (*a*) to pay the arrears of preference dividend out of current profits; (*b*) write back to reserve £40,000 of the amount written off goodwill; and (*c*) eliminate the debit balance (£20,505) of Profit and Loss Account.

The plaintiff did not contend that the goodwill was not worth at least £40,000, but that profits utilised to write down the book values of assets could not afterwards be written back, and be treated as available for distribution. Mr. Justice Russell said that in his view "the sole question was whether the Profit and Loss Account is to be treated as a continuous account so that no dividend could be declared out of one year's profits until any debit to Profit and Loss in respect of prior years had been made good." In his opinion it was not so to be treated. If £40,000 had been carried to reserve from profits it could have been subsequently distributed as dividend. Did it make any difference if the company, instead of carrying that sum to reserve, utilised it to write down the value of goodwill? Had the company permanently capitalised those profits so as to disentitle it to restore them to reserve? The shareholders had approved the directors' previous reports and proposals, but they had not bound themselves to give up their claims to the profits

that had been carried to reserve and employed to eliminate goodwill. In brief, those profits had not been permanently capitalised. The injunction applied for was refused.

Briefly expressed from the accountant's standpoint, fixed assets are those, more or less permanent in nature, held not for purpose of sale, but solely in order to earn revenue. Floating assets are those which have been made or acquired for conversion into money. These main divisions are, in turn, subdivided. Assets subject to gradual consumption or diminution in value are referred to as *Wasting Assets,* and other assets are sometimes referred to as *Intangible* or *Fictitious Assets,* the latter, it is suggested, not being a very happy term in connection with accounts.

Tangible and Intangible Assets.—Students seem to be rather fond of labelling assets as "tangible" and "intangible," but to make arbitrary divisions of this kind is not always so easy to the practical man as it appears to be to the student. So much depends upon circumstances. Under some conditions even book debts may not be very tangible! And, if a factory be compulsorily closed down, stock in various states of manufacture may also not be a very tangible asset, at least when compared with book values. In some cases, in fact, from a strictly literal point of view, cash is the only asset in the Balance Sheet which is really "tangible" to the full extent of its book value. These remarks are of course designedly extreme, and are only made to suggest the inadvisability of attempting an arbitrary division of the assets in a Balance Sheet.

Fixed and Floating Capital.—In the same way that assets are divided into fixed and floating, so also is the capital, fixed capital being represented by the fixed assets, and floating (or working) capital by the floating assets. It must, however, be clearly understood that no attempt can be made on the face of a Balance Sheet precisely to segregate the assets as between fixed and working capital. Any attempt to do so would almost certainly be misleading without giving more explanation than can be afforded in a Balance Sheet. The student must understand that there are no immutable rules by which he can accurately apply these labels to any particular piece of property. A fixed asset in one business may be a floating asset in another, according to the circumstances of the case. A boiler employed by a cigarette manufacturer to raise steam for driving his plant is a fixed asset from his standpoint, but the same boiler was a floating asset when it stood in the yard of the engineer who made it for sale.

Valuation Basis of Assets.—One of the most important considerations in drafting a Balance Sheet is the basis upon which the assets are valued. From the economic point of view, the measure of value is the immediate market price. From the commercial point of view, the only practical basis of valuing assets is that of a going concern. The fixed assets held for profit-earning purposes and not for sale should be valued at cost, less reasonable provision for waste and depreciation. There is no obligation to value them at market or break-up prices. The value of the fixed assets of a

limited company may be said to depend, to some extent, upon its prosperity. If the company is successful, and the assets have been adequately depreciated, they are worth their book value to a prosperous going concern. If, on the other hand, a break-up of the company is imminent, the book value of the assets will almost invariably be far in excess of the prices realisable upon sale Floating assets, such as stock, book debts, investments, etc., are in effect valued, as nearly as possible, at their actual present value to a going concern, which, in some cases at any rate, is their market price.

The effect of writing off goodwill and similar assets—sometimes referred to as "intangible"—is to retain profits in the business, and thus increase the working capital of the company, and this, in the majority of cases, is the motive for reducing the book value of such assets. The same purpose is secured in a more obvious way by the creation of a Reserve Account, unless such an account is subsequently drawn upon for the payment of dividends.

The Criticism of a Balance Sheet.

An important factor in the criticism of a Balance Sheet is the particular standpoint of the critic. The point of view of a creditor or debenture holder is not only not the same as that of a shareholder, but, to an extent, their points of view may actually be antagonistic.

It must be admitted that the average Balance Sheet conveys very confused ideas to the majority of people who read it, and that some Balance Sheets afford little information even to the expert. It is also true that in many cases more detailed information than it is possible to disclose in a concise statement is necessary before a correct opinion can be formed of the financial position of the undertaking concerned. Sometimes a series of Balance Sheets may be required to enable the critic to obtain the information upon which to base a sound judgment.

Definition of Balance Sheet.—There is no need, at this stage of the student's progress, to attempt any further definition of a Balance Sheet. By this time he will understand that his early conception of a Balance Sheet as a statement of assets and liabilities, which he who runs may read, although perhaps fathered by the text-books, was crude and, in many cases, inexact, inasmuch as the asset side of the statement may include items of a suspense character, and possibly also the debit balance of the Profit and Loss Account; whilst the liability side, in addition to capital and actual "outside" liabilities, may include reserves for various purposes and undivided profits.

What a Balance Sheet really is.—The student will recognise that, in some particulars at any rate, a Balance Sheet is frequently an expression of opinion on the part of those responsible for its preparation and issue. This is bound to be so in cases where questions of reserves, depreciation, adjustments between capital and revenue, the value of assets and similar matters assume

important proportions Even if expert valuations were always available, no two would agree. In short, every Balance Sheet is, to some extent, a personal estimate. Time alone can prove how accurate the estimate is. It is difficult to conceive how a commercial Balance Sheet can be anything but an approximation to facts, unless circumstances can be imagined in which, at the close of a trading period, all the assets could be converted into cash and all the liabilities be discharged. This, of course, is impossible in practice, since trading operations consist of a series of continuous and interdependent transactions always in progress so long as the business is in being. Absolute exactitude is beyond human power, and every critic of published accounts must recognise the limitations which these facts impose upon him, and concern himself, first, with ascertaining that the opinions expressed by the statement are honest, and secondly, that they are based upon reasonable grounds. The literal truth is that Balance Sheets are more or less condensed summaries of the balances remaining in the Ledgers after the nominal accounts have been closed, and all accounts relating to revenue have been transferred to the Profit and Loss Account, the balance of which account appears in the Balance Sheet.

The examination candidate should avoid any display of opinions on debatable points when preparing a Balance Sheet from figures supplied for the purpose. He should make no attempt to exercise his discretion, however commendable, in the direction of reserves, depreciations, or other matters of policy, but should confine himself strictly to the directions given in the question. This warning would be superfluous if experience did not show that many candidates handicap themselves by making adjustments not demanded by the terms of the question.

From the point of view of the investing public it is certain that the headings "Assets" and "Liabilities" have proved misleading, for, in many cases, items appear on either side which are not correctly described by either label. The student, however, will not be perturbed by the discovery, since he is aware that, in these days of intricate finance, items frequently appear in a Balance Sheet which are neither possessions nor accrued debts. For example, debenture issue expenses, debenture discount, preliminary expenses, suspense expenditure and similar items, may be scheduled as "assets," while, on the other hand, the "liabilities" may contain such items as reserve and depreciation funds and undivided profits.

The student is also well aware that it is not possible to adopt any standard form of Balance Sheet for general use, since the differing needs of enterprises make unification impossible The few attempts in this direction made by the legislature in connection with Parliamentary companies have not been conspicuously successful. Companies amenable to the Companies Acts have always been allowed to frame their accounts at their own discretion, and, indeed, prior to the Companies Act of 1929, unless subject to Table A or special Articles of Association, they were

under no legal obligation to prepare a Balance Sheet at all, although public companies had to file each year a "Statement in the Form of a Balance Sheet" The requirements of the Act of 1929 regarding the contents of the Balance Sheet leave no doubt that the intention of the legislature is to afford members and creditors such information as will enable them to form an intelligent estimate of the financial position of the company. Notwithstanding these reasonable requirements, the fact remains that some companies still publish such secretive Balance Sheets, and bracket together assets so entirely dissimilar in character as to render the statement worthless, even to the financial expert, although the statement complies with the letter, while ignoring the spirit, of the Act. The reason often urged for this obscurity, viz. that the publishing of trading figures may convey useful information to trade rivals, can seldom be extended to a Balance Sheet.

The following comments and questions are offered to the critical student as suggestions when considering the figures in the average limited company Balance Sheet.

Balance Sheet (Credit Side).

Land and Buildings (Freehold and Leasehold).—If the assets are stated at "cost less depreciation" or "cost less amounts written off," how much has been so written off? Has there been any recent valuation of the property? How has the property been maintained? Have proper repairs and renewals been carried out? If leasehold, what is the term of the lease, and what the ground rent? Has the expenditure on the property applicable to the expired part of the term been written off? Have steps been taken by creating a fund, or by a policy of insurance, to provide for the replacement of the asset at the expiration of the lease? Is there an option for renewal? Can the leasehold be converted into a freehold, and, if so, at what cost? Is neighbouring property rising or falling in value? Are the premises of such magnitude, or of such construction, that their realisation would be difficult? Are they constructed for a particular trade, or suitable for general purposes? Are the rates high? Is there a railway siding on the property, or facilities for obtaining one? Is there a good road leading to the property suitable for road transport? If there are any "additions" to the original cost of the property, of what do they consist? There is a tendency sometimes to consider all expenditure upon property as an "improvement." The test of this is whether the expenditure has improved the selling value or earning capacity of the property, but it is not always easy to apply the test.

Goodwill.—This, in the case of a limited company, should be stated at cost, and must be clearly set out as a separate item (or grouped with Patents and Trade Marks). It is impossible to place an arbitrary value upon the goodwill of a business. It fluctuates with the success of the undertaking, and that, in turn, is influenced by many considerations. Almost invariably the goodwill of a

business is valued at a higher figure if the business is a limited company than if owned by a private partnership. The shareholder, who gives no personal service to the company, is content with a smaller return on his capital than is a partner who contributes not only capital but work and experience. The risk in case of failure is also greater to the private trader than to the shareholder.

We have already seen that by writing off goodwill, working capital may be easily and cheaply secured to the business. The fact that a company is in a position to reduce the book value of its goodwill is in itself proof that the goodwill is alive and valuable. But if the deterioration of trade shows the book value to be excessive, there will, in all probability, be no funds available for the reduction in value which appears to have arisen.

It has been shown (see p. 67) that, apart from considerations of financial prudence, there is no legal obligation to reduce the cost price of goodwill (*Wilmer* v. *McNamara*, [1895] 2 Ch. 245), and no complaint can be made should the item be maintained at cost. When estimating the available assets, a creditor (actual or prospective) will be wise to eliminate the item goodwill from his calculations altogether, for the obvious reason that, except as part and parcel of a going concern, the asset is of little or no value from his point of view. The subject of Goodwill has been more fully dealt with in Chapter III.

Patents or Trade Marks.—Are these assets alive? Has due provision been made to eliminate them at, or before, the close of their respective lives? Unless a periodical "survey" is made of the Trade Marks asset one is apt to find that the values of Trade Marks which have been abandoned are still maintained on the books.

Machinery and Plant.—What does this property consist of? Is it properly maintained? Modern or obsolete? Special plant suitable to a particular trade only, or of a generally useful type? Does the trade require the constant introduction of new types of machinery? Is the depreciation provided for calculated to eliminate the asset at the close of its useful life? Are the boilers insured?

Sometimes the original cost of assets of this nature is stated on the Balance Sheet with the *total* additions to date less the *total* depreciation, e.g.:—

	£	s.	d.	£	s.	d.
Machinery and Plant (at cost)				15,000	0	0
Additions to date of last Balance Sheet ..	8,365	0	0			
Additions during year to date	740	0	0			
				9,105	0	0
				24,105	0	0
Less Depreciation to date of last Balance Sheet	5,960	0	0			
Depreciation for year to date	1,250	0	0			
				7,210	0	0
				£16,895	0	0

Sometimes, however, Machinery and Plant is stated on the asset side of the Balance Sheet at its original cost without deductions, any depreciation that has been effected being stated on the liabilities side of the account under the heading "Depreciation Fund" (or Account), "Renewals Fund" (or Account), "Reserve for Depreciation," etc. In these cases the accumulated depreciation reserve when deducted from the value of the asset will give its book value. Such reserves should indicate the asset in respect of which they are raised.

Loose Tools.—Does this figure represent, as it should, a recent valuation?

Fixtures and Fittings.—These, except to a going concern, are frequently worth firewood prices only.

Horses, Carts, and Harness.—Is this figure derived from an actual valuation *at the date of the Balance Sheet*?

Sundry Debtors.—Are these debts subject to heavy discount? If so, has this been provided for? If due provision has been made, according to the company's experience for bad and doubtful debts, the value of this asset should closely approximate to the Balance Sheet figure.

A few questions, however, suggest themselves. Does the total include any abnormally large debts? What is the usual term of credit allowed in the trade? Are any of the debts long overdue, and does the total include any debts known to be bad? What is the turnover for the year? Given that, and the usual term of credit, it will be possible to form an opinion of the amount which should be outstanding on sundry debtors. A rough yet fairly constant relation should exist between the turnover and the sundry debtors. Have all returns and discounts been dealt with? Does the total include any loans? If so, what security is held as cover for them? Hard-and-fast rules for the valuation of book debts cannot be formulated. The custom as to credit in the trade, special arrangements with customers, and the circumstances of each business must be taken into account. As has already been seen, loans to directors and officers must now be stated separately. Any such loans should be queried as to security, interest receivable, terms of repayment, etc.

Bills Receivable.—What is the financial standing of the acceptors and other parties liable on them? Has provision been made for weak bills? What is the usual tenor of bills in the trade, and are any held which exceed the tenor? Are any of the bills renewed bills? If any bills have been discounted, the contingent liability should be stated in a note on the face of the Balance Sheet.

Work in Progress.—In most cases, this should be stated strictly at cost. It may happen that work is so nearly completed that the exact cost of completion can be gauged, and then the due proportion of the profit earned may be taken credit for, but it is clear that the nicest handling is required in these cases.

Extraordinary Expenditure.—Deferred revenue expenditure, share or debenture issue expenses, preliminary expenses, advertising, unusually heavy repairs, alterations to plant and machinery,

removal expenses, etc., are sometimes spread over a term of years. There can be no reasonable objection to this course if the benefit of the expenditure will clearly outlast the particular year in which it was incurred. The critic will require to be satisfied of the object and usefulness of the expenditure, and the probable life of the benefit to be derived from it, and also that the proportion charged to the current accounts is adequate. Temporary assets of this kind are better eliminated from the calculations of creditors as being valueless except to a going concern. In certain cases a portion of the preliminary or establishment expenditure is capitalised as representing goodwill, e.g. in establishing a patent medicine, where large advertising outlay is incurred, or in founding a newspaper, when some years are required to establish it.

Expenditure held in Suspense.—Insurance, rent, rates and taxes, short-workings, advertising paid for in advance of the current accounts, are legitimately apportioned over the period they cover.

Suspense Account.—Accounts of this kind are not to be encouraged on either side of the Balance Sheet. In earlier days the various revenue adjustments, dealt with in another place, were collected in a general suspense account instead of being dealt with as balances in the relative accounts as is now the practice. Occasionally, however, transactions will occur which cannot be definitely dealt with at the balancing date, such as differences between head office and foreign branches, remittances, allowances, or other transactions about which further information is essential, and so on. In any case, if the amount involved is large, the critic will require satisfactory reasons for its inclusion in the Balance Sheet.

Stock-in-Hand.—This asset needs careful examination. Inaccuracy in the valuation vitiates the whole account from the point of view of profits. Who is responsible for the valuation? Is it the result of independent expert valuation? On what basis has it been made? If losses have already been made in connection with the purchase of the stock, does the valuation allow for such losses? Is the stock alive and readily realisable? How much of it is raw material, and how much manufactured or partly manufactured goods? Does it include, as it should, all goods out on sale or return? What is the relation of the stock to the total sales for the year? In some trades there should be a steady ratio between these two totals, but in a manufacturing business it is not easy to fix such a ratio. In some trades market prices always form the basis of valuation. If, however, the market price is lower than cost price owing to temporary causes only, there is no reason why a going concern should value its stock at less than cost price. Some shareholders are apt to assume that, having signed the accounts, the auditors accept responsibility for the stock valuation. It was decided in *Kingston Cotton Mill Co.*, [1896] 2 Ch. 279, that the auditor is not a valuer, and that, in the absence of suspicious circumstances, he is entitled to accept a certificate of the value of the stock from responsible officials of the company.

REGISTER OF INVESTMENTS.

Description of Investment ....
When Repayable ....
Due Dates of Interest or Dividends ....

When Purchased.	Nominal Holding.	Price Purchased at.	Amount.			Brokerage Stamps			Total Cost			When Sold	Nominal Amount Sold.			Sale Price.	Total Amount			Market Fluctuations.				Dividends Paid.		
			£	s.	d	£	s	d	£	s	d		£	s	d		£	s.	d.	Date.	Price.	Date	Price	Date	Rate	Etc.

Consignments.—Are these goods, if unsold, valued as they should be at cost? Are the accounts old and the goods "stale"?

Shares in Other Companies.—For no very obvious reason, many Balance Sheets omit information as to the precise nature of the investments held. Some large financial houses, however, set an excellent example by publishing a full list of their investment holdings. For what purpose are they held? Do they represent the investment of the Reserve Fund, or merely the temporary employment of surplus working capital? Do they consist of shares in other companies acquired for trade purposes, such as securing supplies of raw materials, or for similar reasons? How have the investments been valued? If at cost, what is the market price (the market value should be stated by way of a note on the Balance Sheet)? Do the shares carry any liability for unpaid calls? Are they "quoted" or "unquoted"?

Interests in subsidiary companies must not be included with other investments held by the parent company, the Act requires them to be separately stated, since they are of a different character from the items commonly included under this heading. The basis of valuation should be considered with the statement of the directors regarding (*a*) the treatment of profits and losses of the subsidiary companies, and (*b*) qualifications of their report by the auditors of

such companies, in order that the critic may know how far he can rely upon the valuations in the parent company's Balance Sheet. Without access to the Balance Sheets of the subsidiary companies, or to a consolidated statement, the critic is frequently unable to place any value upon these investments. The inter-company indebtedness must also be taken into account.

Investments earmarked as representing special reserves should be separately stated and described. When investments are numerous, a separate register recording their history should be kept. A convenient form for such a register is shown at p. 378.

Interest on Investments, etc., Accrued.—Is any item in this total overdue? If so, what is the financial position of the defaulting company, or, in the case of rents receivable, the tenant? Has proper provision been made for probable losses in this connection?

Loans.—If these are secured, what margin exists between the value of the security and the loans? Is the interest in arrear? If the loans are only partly secured, or altogether unsecured, has any reserve been made for possible loss?

Foreign Assets.—What is the evidence of the existence, safe custody, and value of such assets? At what rates of exchange have they been brought into the books? Such assets should be queried in detail on the lines indicated above.

Sinking Fund Investments.—Where these exist the nature of the investments and the present market value should be stated. The basis of valuation must, of course, be shown, since these are in the nature of fixed assets. Do they consist of gilt-edged or other quoted securities? Are they payments to the trustees for debenture holders, or premiums paid under a capital redemption policy?

Cash and Bank Balances.—These, of course, are realised assets, although, owing to window-dressing for Balance Sheet purposes, they may stand at a higher figure than usual. If the Balance Sheet bears the Report of responsible auditors, it can be assumed that the bankers have certified the amount of the Bank balance.

Profit and Loss Account (Debit Balance).—This is an unsatisfactory item, especially from the members' point of view, since it means that dividends will not be available until sufficient profits have been earned to make good the loss represented by the item.

Value of Assets on Realisation.—In judging Balance Sheet values, the critic must bear in mind that, however "clean" and responsible the audit Report may be, the auditor in no way guarantees the realisability of the assets or the valuations of them Absolute verification of the values placed upon assets is impossible in the case of a going concern. The auditor's Report guarantees that the Balance Sheet correctly presents the figures at which the assets and liabilities appear in the books. The rights and duties of auditors have been briefly stated in another place (see p. 213). All that need be said here is that an auditor is not a valuer of the assets in a Balance Sheet to which his report is attached, nor can he assume the responsibilities of a valuer. Valuation itself is, after all, a matter of opinion. All Balance Sheet values must of necessity

be tentative only, as will readily be admitted if the student will reflect that, to take simple illustrations, it is impossible to state definitely the value of land and buildings until they have been put to the actual test of sale, or the value of book debts until they have been collected, or the value of investments, which may vary almost from hour to hour.

Balance Sheet (Debit Side).

Share Capital.—The investor is sometimes puzzled when he finds the company's capital scheduled as a liability, but the student, of course, knows that the members are creditors only as between themselves and the company, and that their claims do not become active except in the event of liquidation, and then not until the whole of the outside liabilities of the company have been met. If the critic is a creditor, he will almost exclusively concern himself with the amount of the liabilities enforceable against the company.

The nominal, subscribed, and paid-up capital should be clearly stated. The critic should remember that the amount of a company's capital, however large it is, is no criterion of its financial position. The bulk of it may have been lost, or may be represented by worthless "paper" assets. Limited companies can only reduce their capital by costly legal process, whereas the losses of the private trader are periodically deducted from his capital account, which consequently indicates his financial interest in the business. The capital account of a limited company does not afford this information, since it must remain at its original figure unless it has been "reduced" by statutory process.

What is the amount of the uncalled capital, if any? Is it available at any time, or can it only be called up in the event of liquidation? Both creditors and prospective investors are interested in this information, though from different points of view. To the creditor, uncalled capital, if available, affords security; to the investor, it indicates a contingent liability, which may materialise at any time. Are the shareholders numerous, or is the capital held by a few individuals, and, if by a few, what is their financial standing? What is the amount of the unpaid calls, and is it a good debt?

If preference shares exist, what are their rights as to capital and dividend? Are there any arrears of dividend? If so, the amount in arrear should be stated as a note on the face of the Balance Sheet. It cannot be claimed that a company is under compulsion to "note" arrears of preference dividend on the Balance Sheet, but it is clear that, if this is not done, a purchaser of ordinary shares may fail to discover that his own chance of a dividend is postponed till large arrears of preference dividend have been met.

If there are Redeemable Preference Shares, are profits being retained to provide the necessary funds for their redemption? If so, are such profits in a liquid form? If profits are not available, what are the prospects of raising fresh capital to provide the funds

for redemption? Will an excessive price have to be paid for such capital, e g. in dividend rate or issue at a discount? What period has the company still available to provide the funds?

Have any founders or management shares been issued, and, if so, in what proportion do they share profits? This is often an important consideration when shares of the kind are held by directors, since it does not always tend to conservative finance.

What is the amount received for any shares that have been forfeited, and are the forfeited shares separately shown on the Balance Sheet? If forfeited shares have been reissued, has any profit which may have arisen from their reissue been taken to reserve? Have any calls been paid in advance? If so, what rate of interest do they carry?

Have any shares been legally issued at a discount? If so, what was the reason? The issue of shares at a discount is a method adopted only where the capital cannot be raised at par, and would usually indicate that the company had passed through a bad time. Has provision been made for the discount?

Debentures.—Were these issued at par, at a premium, or at a discount? If at a premium, has the premium been treated as a capital reserve? If at a discount, is the discount held in suspense being written off over a reasonable period? How are the debentures secured? Do they include a floating charge on all the assets? If they create a specific charge on some of the assets only, what are the assets in pawn? Is it probable that any margin will remain after the satisfaction of the debentures? When are the debentures repayable, and what is the position of the company with regard to repayment? If repayment is shortly due, what are the prospects of a renewal of the issue? Do the debentures cover the uncalled capital (if any), or is such capital free? Has all accrued interest been brought into account? Have any debentures been issued as additional security for loans or debts? If so, a note should appear on the face of the Balance Sheet to that effect, e g.:—

Loan from Bankers .. .. (Secured by the issue of £12,000 6 % Mortgage Debentures.)	£10,000

The student should note that such debentures do not appear in the outer money column as a liability. They are a contingent liability, and are only enforceable by the holders in case of default. As soon as the obligation for which the additional security was issued is discharged the debentures are released. Some few companies state the whole issue of debentures on the liability side of the Balance Sheet, including those issued as additional security, and open a *Debenture Suspense Account* on the asset side for the debentures deposited as security. It is suggested, however, that the record is more suitably made in the form of a note as shown above. Some companies purchase their own debentures in the market and set them out as an investment. In such cases they should not be deducted from the issue on the liabilities side of the Balance Sheet.

If the critic should be a debenture holder, his chief concern will be to ascertain how far the assets covered by the debentures are sufficient to meet principal and accrued interest, and he will not be satisfied unless there is a reasonable margin of security. The questions he will ask are: "What are the assets covered by the debentures, and what, on a conservative estimate, will they realise in the hands of a receiver?" The creditor critic will ask the same questions, since, before a creditor's claim can be met, the debenture holders must be paid off.

Working Capital.—How do the current liabilities compare with the floating assets? What is the trade custom as to credit? What is a fair estimate of the working capital available for the conduct of the business? Bare figures of the surplus capital shown after providing for the fixed assets never afford more than an approximation to the actual working capital required, for it is obvious that the question of credit, especially if the book debts and trade liabilities are heavy, largely determines the amount of working capital that should be available for the smooth and economical working of the business. Seven days' credit may be all that can be obtained, whereas three months or more may have to be allowed. The same considerations may apply to Bills Payable and Bills Receivable. The question of stock will also affect the position? Is the business overstocked? Is the stock in regular demand and saleable throughout?

Sundry Creditors.—Are all outstanding liabilities included in this total, and does it include debts other than trade debts? Have all invoices for goods taken into stock been passed into the accounts? Have all accrued expenses, such as rent, rates, taxes, salaries, travellers' commission, interest on loans, law costs, carriage, freight, etc., been brought into account? If the wages are heavy, has a reserve been made for wages accrued due in respect of a broken week, if a broken week closes the financial period? What are the trade terms of credit? What liquid assets are available to meet these liabilities as they fall due? Are any of the creditors secured (a note to that effect is then required on the Balance Sheet of a limited company)? If they are, what is the value of the security they hold, and what assets are pledged? If there are any loan creditors, are they separately stated, and, if they hold security, are the pawned assets indicated? The amount of the uncalled capital and the value of the free assets are matters of vital interest to the creditor. Amounts due to subsidiary companies must be stated separately.

Bills Payable.—This liability should be separately stated, since it is more pressing than the liability in respect of open accounts with creditors. For what terms have the bills to run? Are any of them "accommodation" or "finance" bills? Is the company liable as drawers of any "finance" paper accepted by an accepting house, and, if so, how is the debt secured?

Bank Loan or Overdraft.—If either exists, it should be separately stated, and the security (since there is almost certain to be security) should also be stated. For what reason was the

accommodation obtained—legitimate expansion of business or urgent financial pressure? If the charge for bank interest in the Profit and Loss Account suggests that the overdraft has been considerably heavier, it will be well to ascertain whether it has been temporarily reduced for "window-dressing" purposes.

Deposits.—The practice of accepting cash on deposit from customers, employees, or others, doubtless affords an economical method of obtaining working capital, but if the company is dependent upon such deposits to a serious extent, a panic might at any time deplete the company of its cash and place it in a perilous position. On the other hand, large stores find this method a most useful means of avoiding open debit balances while running accounts for sales to customers. The nature of the business must be taken into account, as the purpose of receiving the deposits is all-important.

Reserves.—For what purposes have these been raised? Are they for known contingencies, and are they adequate? Are they separately invested? If so, how? So-called reserves for such purposes as bad debts, discounts, depreciation and waste are, in fact, accumulations of depreciation or loss, and should be deducted on the credit side of the Balance Sheet from the assets to which they refer, and the net amounts shown. They differ essentially from reserves which represent undivided profits. General reserves appropriated out of profits will appear on the debit side of the Balance Sheet. Sometimes Articles of Association stipulate that until a reserve amounting to a fixed sum has been accumulated, a certain percentage of the profits shall be allocated each year to reserve prior to the payment of dividends. The critic will note that reserves which are "invested in the business" are not available in times of financial stress when cash is immediately required, except in the case of banks and financial houses, whose assets are, in the main, in liquid form.

A Capital Redemption Reserve Fund indicates that an amount of profits has been compulsorily capitalised on the redemption of Redeemable Preference Shares, and this Fund can only be reduced by the statutory method of reducing share capital. It may, however, be used in paying up Bonus Shares when an amount of new capital equal to it has been issued.

Secret Reserves.—If any such exist, the Balance Sheet will not, of course, disclose them. Questions addressed to the Directors at the annual meeting are not likely to elicit much information. In any case the creditor cannot well complain, nor can the interests of the "here to-day and gone to-morrow" class of shareholder weigh against the establishment of stable financial conditions. The subject of Secret Reserves has been dealt with more fully in Chapter III.

Profit and Loss Account (Balance).—In view of the meagre detail contained in the average Profit and Loss Account as now published, it is customary to show some detail in the Balance Sheet, and not confine the entry to the mere net balance available for distribution The extract, given overleaf, from the Balance

PROFIT AND LOSS ACCOUNT.

		£ s. d.	£ s. d.	£ s. d.
Balance from September 30, 19..			43,207 7 11	
Profit for year ended September 30, 19.. ..		361,920 11 7		
Less :—	£ s. d			
First Mortgage Debenture Interest	45,000 0 0			
6 % Second Mortgage Debenture Interest to date of redemption, November 15, 19..	317 19 6			
6 % Second Mortgage Debenture Interest	28,845 17 5			
Interim Dividend on Preference Shares, paid May 1, 19..	22,000 0 0			
Interim Dividend on Preferred Ordinary Shares, paid May 1, 19..	13,500 0 0	109,663 16 11		
			252,256 14 8	
Less :—			295,554 2 7	
Buildings, Plant, etc , Depreciation Reserve		40,000 0 0		
Debenture Stock Redemption Sinking Fund		5,825 0 0		
Investment Reserve		1,314 3 8		
Expenses of Issue and Conversion of Second Mortgage Debenture Stocks and Issue of Preferred Ordinary Shares, after deducting Premiums received on the latter ..		1,157 11 3	48,296 14 11	
				247,257 7 8

Sheet of a well-known undertaking will show the mode of treatment frequently employed.

Contingent Liabilities.—These, when they exist, are usually, but not necessarily, entered "short" on the debit side of the Balance Sheet, or in the form of notes giving brief details of the liabilities. It may repay the creditor critic to examine carefully the contingent liabilities so noted. The contingencies noted in the manner described usually relate to liabilities for uncalled capital on investments held; discounted Bills Receivable; commitments in respect of the acquisition of properties; possible losses under forward contracts; guarantees in connection with the capital issues of other companies; outstanding claims for damages, and so forth. A note as to arrears of Cumulative Preference dividends is similarly desirable, although these are not really accruing "liabilities," being doubly contingent upon profits being earned *and* upon dividends being declared.

Comparisons.—In some cases the critic will be liable to draw false conclusions if he sees one Balance Sheet only. He will be on much surer ground if he can analyse and compare a series of Balance Sheets covering, say, three or more years. Is the percentage of the Sundry Debtors to the Sales increasing, or the percentage of Sundry Creditors to the Purchases increasing? Is the percentage of the stock compared with the turnover getting lower or higher? What inferences arise from a comparison of the figures throughout the years for Machinery and Plant, Furniture and Fixtures, Patents, and similar assets? If the trading accounts are available, one of the most important comparisons is afforded by the ratio of gross profit for each year covered by the accounts. No feature is more unsatisfactory than a steadily decreasing ratio of gross profit.

Much may be gathered by an experienced critic from the general appearance of the Balance Sheet. In the majority of cases, however, further insight is necessary before the full significance of the figures is revealed. The nature of the business and the circumstances in which it is carried on must always be important criteria of judgment. A bank cannot be judged by the same standard as a manufacturing business.

Again, the critic will value the assets on the basis of immediate market values, or as a going concern, according to his particular standpoint. The attitude of a creditor is not the same as that of a speculative shareholder. The creditor, in view of possible liquidation, desires to ascertain the value of the remaining free assets after all secured claims have been met. Careful analysis of the Balance Sheet, combined with inspection of the Mortgage Register at Somerset House, will usually provide him with this information. The speculative shareholder, on the other hand, is more concerned with the immediate financial position and with the profit-earning capabilities of the undertaking in the near future.

Finally, the average trader is not enamoured of limited companies in the relationship of debtors, and, if wise, he takes more trouble in his inquiries about companies than he does about private concerns Companies can usually issue debentures by creating a floating charge on the assets, but the private trader can only create such a charge by means of a Bill of Sale, the registration of which would seriously hamper, if not destroy, his credit.

On p 386 will be found a Balance Sheet, rearranged as a critical debenture holder or creditor would rearrange it, wherein the liabilities are marshalled in the order in which they must be met, and the available assets are grouped according to their liquidity.

The Form of Published Accounts.

The syllabuses of some of the examining bodies require knowledge of the various forms in which accounts are published. Apart from preparation for examination, the study of actual sets of published accounts is a highly useful exercise, since it tends to broaden the student's views and dissuade him from dogmatism. Much space has accordingly been devoted throughout this book to the form of published accounts and to explaining their construction.

The majority of companies frame special Articles of Association dealing with the preparation and distribution of their accounts. These, as a general rule, follow closely the relative Articles in revised Table A, which are as follows:—

97. The directors shall cause proper books of account to be kept with respect to—

All sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

All sales and purchases of goods by the company; and

The assets and liabilities of the company.

(See p. 385)

BALANCE SHEET.

(Rearranged by Critic for the Information of a Debenture Holder or Creditor.)

LIABILITIES	£	s.	d.	£	s.	d.
DEBENTURE HOLDERS.—						
First Mortgage Debentures (4 %) ..	60,000	0	0			
Second Mortgage Debentures (5 %) ..	40,000	0	0			
Accrued Interest	1,100	0	0			
				101,100	0	0
UNSECURED CREDITORS :—						
Open Trade Accounts	6,850	0	0			
Loans and Accrued Interest . ..	2,155	0	0			
Bills Payable	2,845	0	0			
Outstanding Expenses	925	0	0			
Cash Deposits	3,005	0	0			
Staff Pension Fund	1,950	0	0			
Unclaimed Dividends	950	0	0	18,680	0	0
SHAREHOLDERS :—						
5 % Cumulative Preference Shares ..	50,000	0	0			
Ordinary Shares	150,000	0	0			
Reserve Account	14,000	0	0			
Leasehold Redemption Fund . ..	2,400	0	0			
Profit and Loss Account (Balance) ..	3,850	0	0			
				220,250	0	0
			£	340,030	0	0

ASSETS		£	s.	d.	£	s.	d.
LIQUID ASSETS :—							
Cash in hand and at Bank		3,875	0	0			
Investments	£45,870						
Less Bank overdraft secured by deposit of bonds.. ..	5,000						
		40,870	0	0			
					44,745	0	0
CIRCULATING ASSETS :—							
Stock in hand		56,720	0	0			
Bills Receivable		19,580	0	0			
Sundry Debtors		3,895	0	0			
Work in progress		17,482	0	0			
Advances against security		2,193	0	0			
					99,870	0	0
FIXED ASSETS*.—							
Freehold Property		105,800	0	0			
Leasehold Property		15,650					
Plant and Machinery		38,740					
Furniture, Fixtures, and Fittings.. ..		2,565					
Horses, Vans, and Harness		1,715	0	0			
					164,470	0	0
INTANGIBLE ASSETS * —							
Goodwill		10,000	0	0			
Expenditure Accounts carried forward in suspense		865	0	0			
Improvements to Leaseholds .		9,785	0	0			
Patents		9,000	0	0			
Trade Marks		1,295	0	0			
					30,945	0	0
				£	340,030	0	0

* The exact bases of valuation would also be stated

98. The books of account shall be kept at the registered office of the company, or at such other place or places as the directors think fit, and shall always be open to the inspection of the directors.

99 The directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the company or any of them shall be open to the inspection of members not being directors, and no member (not being a director) shall have any right of inspecting any account or book or document of the company except as conferred by statute or authorised by the directors or by the company in general meeting

100. The directors shall from time to time, in accordance with section 123 of the Act, cause to be prepared and to be laid before the company in general meeting such profit and loss accounts, balance sheets and reports as are referred to in that section.

101. A copy of every balance sheet (including every document required by law to be annexed thereto) which is to be laid before the company in general meeting together with a copy of the Auditors' report shall not less than seven days before the date of the meeting be sent to all persons entitled to receive notices of general meetings of the company.

S. 129 provides that the Balance Sheet shall be signed on behalf of the Board by two of the directors of the company, or, if there is only one director, by that director, that the Auditors' Report shall be attached to the Balance Sheet, and that the report shall be read before the company in general meeting, and shall be open to inspection by any member. The company, and every director, manager, secretary, or other officer of the company who is knowingly a party to the issue, circulation, or publication of a Balance Sheet which is not properly signed, or which does not have attached to it a copy of the Auditors' Report, shall on conviction be liable to a penalty not exceeding £50.

The Auditors' Report appears on the Balance Sheet for the obvious reason that the latter is a statement of all the ledger balances, of which the Profit and Loss Account is one. If the Balance Sheet is certified as correct, it follows that the Profit and Loss Account is also correct.

The accounts of banking companies must be signed by the secretary or manager (if any), and, where there are more than three directors, by at least three of those directors, and where there are not more than three directors, by all the directors [S. 129, s.-s. (2)].

The undertakings whose accounts must be in the form prescribed by statute are as follows:—

Undertaking.	*Source of Prescribed Form.*
(*a*) Railway companies ..	*Railway Companies* (*Accounts and Returns*) *Act*, 1911, First Schedule, and *Statutory Order of* 1928.
(*b*) Life assurance companies	*Assurance Companies Act*, 1909.
(*c*) Gas companies	*Gas Works Clauses Act*, 1871, Schedule B.
(*d*) Gas companies (Urban Authorities)	As prescribed by their Provisional Orders.
(*e*) Electric lighting companies	As prescribed by the Board of Trade.

Undertaking	*Source of Prescribed Form*
(*f*) Building societies Friendly societies	As prescribed by the Registrar of Friendly Societies.
(*g*) Hospitals	All hospitals desirous of participating in the distribution of King Edward VII's and other hospital funds must adopt the form of accounts prescribed by the Committee.

Apart from these undertakings, no stereotyped form of account is demanded from limited companies, which are free to present their assets and liabilities in any sequence and in any form they prefer, so long as the particulars required by the Act are properly stated (see p. 363).

The majority of companies publish annual accounts. Banks must present their accounts or "statements" half-yearly (S 131). Railways now present yearly in place of half-yearly accounts (*Railway Companies (Accounts and Returns) Act*, 1911).

EXAMINATION QUESTIONS.

1. On what grounds is it unadvisable in some cases to publish the details of a Profit and Loss Account of a joint stock company, and draw up such a form of account as will, as far as possible, give shareholders information without injury to the company's business operations? (*Chartered Accountants*)

2. Would you defend, and if so, on what grounds, the non-presentation by a manufacturing company of its Trading and Profit and Loss Accounts at its annual meeting? (*Chartered Accountants.*)

3. Criticism is sometimes made that audited Balance Sheets and Accounts do not show clearly the appropriation of the balances at the credit of Profit and Loss Accounts. Give an instance (dealing with the figures of any account with which you may be familiar) of the manner in which in your opinion they should be presented to shareholders. (*Incorporated Accountants.*)

4. The Articles of Association of a company provide that profits available for dividends shall be applied in a certain order. Discuss briefly, and without going into questions as to the methods of ascertaining the profits of a company, the meaning of the expression "profits available for dividends" for the purposes of such an article. (*Chartered Accountants.*)

5. Say that £1,000,000 a year is required in all to pay interest on First Preference (at 4½ %), £250,000; Ordinary Capital (at 3 %), £300,000; Debenture (at 4 %), £350,000; and Second Preference (at 5 %), £100,000; and there is a balance of only £680,000 available Show how same should be divided. (*Chartered Accountants.*)

6. Under what circumstances can you justify the declaration of a dividend when the same cannot be paid without borrowing, or issuing capital for the purpose? (*Chartered Accountants.*)

7. After considering the audited accounts of the Company for the year ended December 31st, the Directors of the Rayon d'Or Publishing Co., Ltd., resolved as follows: (1) To pay the 6 % dividend (*less* tax) due upon the Preference Stock (£50,000). (2) To pay a dividend of 8 % (*less* tax) upon the Ordinary Share Capital (£60,000). (3) To transfer £1,500 to the Renewals Reserve Account. (4) To carry forward the balance.

The profits shown by the Profit and Loss Account amounted to £11,400. Assume the rate of Income Tax payable to be 4s. 6d. in the £. Show the entries necessary to carry out the above resolutions. (*Royal Society Arts.*)

8. When making up the accounts of a company at the end of its first year's operations, the directors instructed you to charge against Profits one-fifth of the Preliminary Expenses, to provide for depreciation at stated rates, and to transfer one-tenth of the balance to a Reserve Account. At the end of the second year it was found that before making such provisions the accounts showed a loss Is the fact that a loss has been made any reason for refraining from making provisions on the same scale as in the previous year? Give reasons for your answer. (*Chartered Institute Secretaries.*)

9. On September 30, 19.., a tinplate manufacturing company contracted to buy 100 tons of tin at £169 per ton, for delivery December 31, 19... A few days later they contracted to sell 100 tons at £171 10s, also for delivery December 31, 19... The accounts are made up to October 31, 19 , and you find that Profit and Loss has been credited with £250 in respect of these transactions. Would you pass the item as correct? If not, state your views. (*Chartered Accountants.*)

10. A company purchased a business as a going concern on January 1, 19.., with the right to the profits from the preceding October 1. The Capital is: 5 % Preference Shares, £50,000; 6 % Preferred Ordinary Shares, £50,000; Deferred Ordinary Shares, £24,800. The year's profits to the following September 30 are found to be £7,664. What appropriation of such profits should you make? (*Chartered Accountants*)

11. The accounts of the Clifford Trading Co., Ltd., for the financial year ended April 30, 19.., show a net profit of £125,000. The Company has an issued and paid-up capital of £600,000 divided into 400,000 Ordinary Shares of £1 each and 200,000 6 % Preference Shares of £1 each. There was a credit balance of £24,891 13s 4d. brought forward as Profit and Loss Account from the previous period. The directors decide at March 31, 19 ., subject to the approval of the members in General Meeting, to apportion the available profit as follows: (1) Pay the year's dividend on Preference Shares. (2) Write £10,000 off Goodwill (3) Carry £20,000 to General Reserve Account. (4) Redeem 25 Debentures at £1,000 each at par. (5) Pay a dividend on the Ordinary Shares free of Income Tax up to such an amount as will leave a balance of not less than £20,000 to be carried forward

Show the effect of this decision of the directors in the form of an Appropriation Account, making a reserve for Income Tax at 4s 6d. in the £. It may be assumed that all items in the Profit and Loss Account have been allowed for Income Tax Purposes. (*Central Association Accountants.*)

12. The Profit and Loss Account of Soleil d'Or, Ltd., prior to the payment of debenture interest for the half-year to December 31, 19.., disclosed a profit of £12,850 as on December 31, 19 .. The Paid-up Capital of the Company consisted of £100,000, divided into 50,000 5 % Preference Shares of £1 each, and 50,000 Ordinary Shares of £1 each. 100 Debentures of £100 each at 4 % had also been issued. The directors made the undermentioned recommendations for the disposal of the above balance which were approved by the shareholders at the annual meeting: (1) To pay the half-year's interest to December 31, 19.., due on the Debentures. (2) To pay the Preference dividend for the half-year to December 31, 19... (3) To pay a dividend for the year ended December 31, 19.., of 10 % on the Ordinary Shares, free of Income Tax. (4) To transfer £5,000 to Reserve, raising that Account to £15,000 in all. (5) To carry forward the balance to next year Show the entries necessary to record these transactions in the books of Soleil d'Or, Ltd. (*London Chamber Commerce.*)

13. A private firm makes up its accounts yearly to December 31st. On April 30, 19. , the business is transferred to a limited liability company (then incorporated) for £50,000 in fully paid shares therein, and the agreement with the vendors provides that it is taken over by the company as from January 1, 19.., the business being continued in all other respects as before.

You are instructed to audit the accounts.

The profit for the year ending December 31, 19.., is £6,000, which the directors recommend be disposed of as follows:—

	£
Formation Expenses—Write off one-half	600
Reserve Fund—Transfer	400
Dividend—10 % per annum	5,000
	£6,000

What observations would you make on these recommendations? *(Chartered Accountants)*

14. The Profit and Loss Account of a limited company showed a credit balance of £53,368 10s. 8d.

The directors of the company decided to dispose of this balance as follows: (1) To transfer £500 to a Forged Transfers Reserve Account and £8,000 to General Reserve Account; raising the latter to £20,000. (2) To pay the half-year's dividend due on the £150,000 6 % Preference Shares. (3) To pay a dividend of 8 % on the £250,000 Ordinary Shares free of tax. (4) To write off the balance of the Debenture Issue Expenses Account which stood at £3,876 (5) To carry forward the balance to next year.

Assume that these proposals were confirmed by the shareholders and give the entries necessary to record them in the books of the company. Assume that Income Tax was 4s. 6d. in the £. *(Chartered Institute Secretaries.)*

15. The Alpha Manufacturing Co., Ltd., had a nominal capital of £20,000, divided into 12,000 "A" shares and 8,000 "B" shares of £1 each, of which 10,000 "A" and 5,000 "B" shares were issued and fully paid up.

The Company's articles provided that the profits should be divided as follows, so far as the general meeting might decide: (1) In payment of a cumulative dividend of 10 % on the "A" and 20 % on the "B" shares. (2) In payment of a non-cumulative dividend of 15 % on the "B" shares. (3) In payment of a non-cumulative dividend of $7\frac{1}{2}$ % on the "A" shares. (4) In payment of a further dividend *pro rata*, but so that the dividend on each "B" share should be twice that on each "A" share.

The general manager was entitled to a bonus of £10 for each 1 % dividend paid on the "A" shares above 10 %

The profits for the year 19.. amounted to £9,000, and there was an undistributed balance from 19 . of £3,500.

The general meeting decided to pay the dividends under (1), (2), and (3) above, and a further dividend under (4) of $7\frac{1}{2}$ % on the "A" and 15 % on the "B" shares; and, after providing for the general manager's bonus, to place one-half of the balance to Reserve Fund, and carry the other half forward to next year.

Make out the Appropriation Account. *(Chartered Accountants)*

16. The following is the Trial Balance of a company on December 31st:—

	Dr.	Cr.
Stock, January 1st	2,000	
Book Debts	2,000	
Plant and Machinery	1,000	
Wages	500	
Salaries	200	
Preference Shares		2,500
Ordinary Shares		2,500
Freeholds	3,000	
Creditors		1,000
General Reserve		1,000
Travelling Expenses	250	
Purchases	10,000	
Sales		15,000
Cash	3,050	
	£22,000	£22,000

Stock on December 31st was £2,500.

It is resolved. To write 10 % off Plant and Machinery; to reserve on Bad and Doubtful Debts Account 10 % off Book Debts; to place £100 to a Bonus Fund for the Staff; to place £1,250 to General Reserve; to pay 5 % on the Preference Shares, *less* tax, to pay 6 % on the Ordinary Shares, free of tax; and to carry the balance forward.

Prepare the Trading and Profit and Loss Account for the year, and the Balance Sheet as at its close, after appropriating the profits as directed. (*Chartered Accountants.*)

17. Draw up a Revenue Account (*pro forma*) of a mining company, dividing the account into three parts, the first showing the gross profit, the second the net profit, and the third the amount of undivided profit after bringing forward the balance from the previous account and the payment of an interim dividend. The preliminary expenses are being spread over five years and the company has only completed its third year. (*Chartered Accountants.*)

18. What control, if any, has the auditor of a limited company over the form in which the accounts of the company are published? (*Chartered Accountants.*)

19. Is it necessary for a company to make good capital losses incurred in past years before it can pay a dividend out of profits earned in the current year? (*Chartered Accountants.*)

20. Criticise the following accounts submitted to you for audit, and give your views on the directors' recommendations.

MANUFACTURING ACCOUNT OF THE .... COMPANY FROM JULY 1ST TO DECEMBER 31ST.

DR.	£		CR. £
To Stock, July 1st	13,241	By Sales	91,240
,, Purchases	54,777	,, Returns of Goods sold	1,120
,, Returns of Goods bought	1,781	,, Stock, December 31st	17,687
,, Rent of Factory	980		
,, Rates and Taxes of Factory	293		
,, Wages	16,193		
,, Travellers	670		
,, Balance, Gross Profit	22,112		
	£110,047		£110,047

PROFIT AND LOSS ACCOUNT.

DR.	£		CR. £
To Repairs to Plant	388	By Balance of Profit and Loss undivided, July 1st	1,297
,, Office Salaries	1,415	,, Balance from Manufacturing Account	22,112
,, Carriage Raw Material	2,891		
,, Carriage Goods sold	1,976		
,, Debenture Interest	1,200		
,, Warehouse and Office Rent	150		
,, Salary of Factory Manager	1,100		
,, Agents' Commission	413		
,, Bad Debts	541		
,, Balance	13,335		
	£23,409		£23,409

	£		£
To Depreciation, Office Furniture	22	By Balance, Profit	13,335
,, Office Plant	641		
,, Directors' Fees, as per Articles of Association	600		
,, Proposed Dividend at 11 %	11,000		
,, Balance carried forward	1,072		
	£13,335		£13,335

EXTRACT FROM REPORT.

"The directors recommend that the profit of £13,335 should be applied in making a reserve for depreciation amounting to £663—for their own fees, as fixed by the Articles of Association, at £600, and for a dividend of 11 % per annum; the balance being carried forward" (*Chartered Accountants.*)

21. Define a Balance Sheet and a Statement of Affairs, and explain what difference, if any, you find between them. (*Chartered Accountants.*)

22. Define a Balance Sheet, and explain why in the majority of instances it is not a Statement of Liabilities and Assets. (*Chartered Accountants.*)

23. What are the advantages of a standardised form of Balance Sheet? Are there any objections to it? (*Incorporated Accountants.*)

24. Give your reasons for or against the desirability of an auditor revising the form and wording of a company's Balance Sheet to which his certificate is to be affixed. (*Chartered Accountants.*)

25. Express fully your opinion upon the methods of grouping items under general headings in a Balance Sheet, and state what distinction you would make between realisable Assets and Debit Balances of a suspense nature. Give examples. (*Chartered Accountants.*)

26. The debit and credit sides of the Balance Sheets of limited companies are often headed "Liabilities" and "Assets" respectively. Have you any objection to this practice? Is there any obligation to provide for any waste which may occur either in the fixed assets or in the floating assets of a limited company? If so, how should such waste be dealt with? (*London Chamber Commerce.*)

27. It has been stated that the Balance Sheet headings "Liabilities" and "Assets" are misleading, and that the signs "Dr.," "Cr.," "To," and "By" are not appropriate in this connection.

What are your views with regard to these criticisms? (*Royal Society Arts.*)

28. What special points in a Balance Sheet of a Company—apart from the correctness of figures—do you consider need careful consideration to afford due protection to Directors and Auditors? (*Chartered Accountants.*)

29. What is the duty of an auditor as to the valuation of the assets set out in a Balance Sheet? (*Chartered Accountants.*)

30. Give the Balance Sheet and accounts of a company to be submitted to the shareholders, and report upon it. (*Chartered Accountants.*)

31. It is frequently alleged that dividends have been paid out of capital. Explain this statement, and point out in what ways a dividend can be so paid. (*Chartered Accountants.*)

32. In *Verner* v. *General and Commercial Investment Trust*, Lindley, L.J., said: "There is no law which compels limited companies in all cases to recoup losses shown by the Capital Account out of the receipts shown in the Profit and Loss Account, although care must be taken not to treat capital as if it were profit." Discuss this statement. (*Chartered Accountants.*)

33. It has been stated that "the decisions in the *Lee* v *Neuchâtel Asphalte Co.* series of cases relieve limited companies from the obligation to provide for depreciation on fixed assets."

What is your opinion of the statement from the point of view of: (*a*) The legal decisions referred to. (*b*) Commercial policy? (*Chartered Accountants.*)

34. The undermentioned assets are the property of the Reliance Boot Manufacturing Co., Ltd. How should they be valued for Balance Sheet purposes? (*a*) Twenty debentures of £100 each in the Southern Railway of America, representing the investment of the Reserve Fund. The debentures were purchased at par, but the market price has since fluctuated between 94 and 108; the former quotation being the mean market price as on December 31, 19.., the date upon which the Balance Sheet of the Reliance Book Manufacturing Co., Ltd., is prepared. (*b*) Patents £2,000. This amount represents the original cost of the patent rights in a welting machine. The grant of letters patent is dated January 1, 1906. (*c*) Goodwill £5,000. This asset was purchased in 1905, at the price named, upon the formation of the limited company. The trading profits have steadily declined from £4,200 to £2,124 in four years. (*London Chamber Commerce.*)

35. A manufacturer has before him a copy of the latest Directors' Report and Accounts of the A Co., Ltd. He is desirous of satisfying himself that it would be reasonable for him to give them credit up to £500. To what points in the Report and Accounts should he direct his attention? (*Royal Society Arts.*)

36. Criticise the following Balance Sheet attached to the annual return of a company submitted to you as auditor for signature, before being sent to Somerset House. To what date should such Balance Sheet be made up? When may it be dispensed with?

BALANCE SHEET, JUNE 30TH.

DR.		£	CR.	£
To Share Capital issued— 100,000 Shares of £1 each		100,000	By Lands, Buildings, Plant, Goodwill and Trade Marks	120,000
" Debenture Stock		50,000	" Debtor Balances	30,000
" Credit Balances and Reserve Funds		25,000	" Stock	14,000
" Profit and Loss Account June 30th last	2,500		" Cash at Bank and Sundry Investments	17,500
" Profit for year	9,000			
	11,500			
Less Dividend paid	5,000			
		6,500		
		£181,500		£181,500

(*Chartered Accountants.*)

37. At a recent examination, the understated Balance Sheet was sent in by a candidate. Have you any criticism to offer upon it?

BALANCE SHEET, DECEMBER 31ST.

MESSRS. A. & B.

DR. ASSETS	£	£	LIABILITIES	£	CR. £
Plant Account		4,000	A's Capital	3,000	
Debtors	8,200		*Add* Interest	150	
Less Reserve (31/12/19..)	410				3,150
		7,790	B's Capital	2,000	
A's Drawings		300	*Add* Interest	100	
B's Drawings		200			2,100
Repairs		120	Creditors		9,800
Stock (Jan. 1st)	3,200		A's Profits		1,800
Stock (Dec. 31st)	4,000		B's Profits		1,800
		7,200	Depreciation on Plant		200
Cash		420	Reserve for Debtors (Jan. 1st)		350
			Balance		830
		£20,030			£20,030

(*London Chamber Commerce.*)

38. Criticise the following Trading and Profit and Loss Account and Balance Sheet; and draw them as you would present them to the shareholders of the company at the annual meeting, giving *pro forma* figures for any items you think should be inserted:—

THE PATENT MIXTURES COMPANY, LIMITED.

TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AUGUST 31ST.

Dr.	£	£		Cr. £
To Stock on hand	5,321		By Goods sold	5,571
Less Plant	2,108		,, Additions to Plant	180
		3,213	,, Stock in hand	4,153
,, Goods bought		5,130	,, Balance to Balance Sheet	514
,, Wages		915		
,, Carriage		55		
,, Branch Wages and Expenses		312		
,, Bad Debts		210		
,, Rent, Rates and Insurance		319		
,, Trade charges		264		
		£10,418		£10,418

BALANCE SHEET.

Liabilities.	£	Assets.	£
Share Capital	5,433	Sundry Debtors	2,890
X, Y, Z	1,509	Plant and Machinery	2,265
Bankers	769	Stock in hand	4,153
Sundry Creditors	2,114	Cash in hand	3
		Balance	514
	£9,825		£9,825

(*Royal Society Arts.*)

39. A client of yours has been invited to purchase shares in a private limited company. He submits the company's last Balance Sheet to you and asks you to report upon the financial position disclosed. Among the assets you find the following: Land and Buildings (Freehold and Leasehold), £48,942 10s. 6d; Goodwill, £5,000; Loose Tools, £1,926 10s.; Bills Receivable, £3,894 12s. 6d.; Goods on Consignment, £13,652; Argentine Branch (Freehold Warehouse, Stock and Sundry Debtors), £12,950 10s. 7d.

If you desire further information with regard to any of the above items before reporting to your client, draft a letter to the secretary of the company setting forth your requirements. (*Chartered Accountants.*)

40. The directors of a limited company issued the understated account to their shareholders. Do you approve of this document? If not, what amendments do you suggest?

BALANCE SHEET, DECEMBER 31ST.

Dr.	£		Cr. £
To Share Capital	500,000	By Land, Buildings, Plant, Stock, Furniture, and Goodwill	1,007,000
,, Reserve Fund	100,000	,, Debtors, Cash, Investments, and Sundry Debtor Balances	166,000
,, Sinking Fund for Leases	10,000		
,, Mortgages and other outstanding Liabilities	535,000		
,, Balance carried down	28,000		
	£1,173,000		£1,173,000
	£		£
To Interim Dividend paid	25,000	By Balance brought down	28,000
,, Balance carried forward	3,000		
	£28,000		£28,000

(*London Chamber Commerce.*)

41. Is the Profit and Loss Account, as set out below, properly drawn up? If not, submit the account as you would present it.

PROFIT AND LOSS ACCOUNT, DECEMBER 31st.

DR.

	£
To Salaries	820
,, Depreciation	1,401
,, Purchases	42,000
,, Returns	362
,, Discounts	421
,, Dividend paid	3,842
,, Directors' Fees	1,000
,, Trade Expenses	1,200
,, Dividend (5 % for year)	6,200
,, Manufacturing Wages	3,280
,, Transfer to Reserve Account	4,000
,, Balance carried to Balance Sheet	2,876
	£68,002

	£	£
By Stock	18,200	
Less January 1st	17,400	
		800
,, Interest on investments	3,400	
Less Loss on Sale of Investments	900	
		2,500
,, Balance from last year's account		4,321
,, Sales		59,940
,, Error in Books		120
,, Unclaimed Dividends		321
		£68,002

(*Royal Society Arts.*)

42. You are instructed to make a report on the business and affairs of a firm of engineers by a client who is asked to lend a sum of £10,000, for the purpose of profitably carrying out a contract to make shells for the Admiralty. From your investigations of the books and accounts you find that the firm's Capital Account stands at £6,700, that they owe to sundry creditors for goods supplied £22,706, that they have an overdraft at their Bankers of £2,300, and have had cash advances to the extent of £2,100. They have spent already on the contract mentioned £12,100, and you see in the books, headed Suspense Account, a debit of £919. The assets disclosed are: Debtors, £7,999; Stock, £6,700; Furniture, £859; Cost of Lease, £311; Plant, £4,800; Cash, £118.

State clearly what considerations would weigh with you in recommending, or, if you so decide, in not recommending your client to invest his money. In drafting an account from the figures supplied, set out against each item what further and fuller information (if any) you require. (*Incorporated Accountants*)

43. Criticise the following Balance Sheet from the point of view of a Creditor:—

LAMBERLINS, LIMITED.

BALANCE SHEET, DECEMBER 31, 19..

DR.

	£	£
Share Capital—		
Issued 300,000 Ordinary Shares of £1 each	300,000	
Less Calls in arrear	2,000	
		298,000
5 % Debentures, redeemable in 1920	220,000	
Interest accrued thereon	4,125	
		224,125
Workmen's Compensation Fund		3,500
Reserve Account		54,000
Leasehold Redemption Fund		47,000
Unpaid Dividends		742
Sundry Creditors		164,305
Profit and Loss Account—		
Balance from last year	6,892	
Less Loss for the year	5,422	
		1,470
		£793,142

CR.

	£	£
Freehold and Leasehold Property as per last Balance Sheet	267,964	
Less amount written off leaseholds in 19	1,200	
		266,764
Goodwill, Patent Rights and Trade Marks, as per last Balance Sheet	252,000	
Patents Fees paid this year	1,500	
		253,500
Trade Investments—		
Shares in other Companies		57,000
Trustees for Debenture Holders (Leasehold Redemption Fund Investments)—		
£50,000 of the Company's 5 % Debentures at cost	43,650	
House Property at cost	2,550	
		46,200
Sundry Debtors		24,326
Stock in hand		12,472
Cash at Bank and in hand		380
Uncompleted Contracts	120,500	
Estimated Profit thereon	12,000	
		132,500
		£793,142

(*Chartered Accountants.*)

44. The assets side of the first Balance Sheet of a rubber plantation submitted to you for audit was as follows :—

	£	£
Property Account—		
Cost of Estate as per Prospectus	50,000	
Expenditure in Borneo during the year ..	22,784	
Purchase of Native Holdings	10,000	
London Office Expenses	1,897	
	84,681	
Less Sales of Rubber, Transfer Fees, and Bank Interest	1,742	
		82,939
Preliminary Expenses Account		1,031
Coast Advances to Coolies		984
Cash at Bank		14,861
		£99,815

Give reasons for approving or disapproving this statement.

Deal briefly with any points arising out of the above figures to which you would devote special attention. (*Chartered Accountants.*)

45. Criticise the Balance Sheet set out hereunder. If you do not approve of it, amend it.

BLANKS, LIMITED.

BALANCE SHEET FOR THE YEAR ENDING DECEMBER 31, 19...

Dr.		£	Cr.	£
Ordinary Share Capital .	£86,000		Stock on hand	32,000
Less Forfeited Shares ..	400		Uncompleted Contracts .. .	168,092
		85,600	Cash	2,210
Preference Share Capital..		100,000	Goodwill and Trade Marks	56,000
Depreciation Fund		2,500	Plant and Machinery	24,600
Debentures—1,000 Debentures of £100 each, at 5 %, issued at 90..		90,000	Sundry Debtors	10,200
Bank Overdraft and Sundry Creditors		15,862	Unpaid Calls	1,500
Profit for the year . ..	£12,850			
Balance from last year ..	2,250			
	15,100			
Less Preference Dividend and proposed Ordinary Dividend	13,560			
		1,540		
		£295,502		£295,502

(*Chartered Accountants.*)

46. Report fully in what respect the following Balance Sheet is not in accordance with the Companies Act, 1929, or established practice. Illustrate by re-drafting same in proper form.

BALANCE SHEET OF F A.Q. CO., LTD., AS ON APRIL 1, 19...

Dr.		£	Cr.		£
To Stock-in-Trade		8,412	By Loan on Mortgage of Co.'s Property		20,000
„ Book Debts		16,201	„ Trade Liabilities		16,412
„ Buildings		41,120	„ Capital £120,000 in Shares of £1 each, all issued, 10s paid up .	£60,000	
„ Plant and Machinery ..		79,480	*Less* 8,000 Shares cancelled, 10s. paid ..	4,000	
„ Profit and Loss Account	£8,978				56,000
Less Shares cancelled..	4,000		„ Reserve Fund		14,500
		4,978	„ Debentures issued		40,000
„ Cost of Issue of Debentures ..		641	„ Bills payable		8,420
„ Bills receivable not yet due ..		4,500			
		£155,332			£155,332

I have examined the above Balance Sheet and find same correct.

X.Y.Z., *Auditor.*

(*Incorporated Accountants.*)

47. Y and Z are partners in an old-established business. They require additional capital, and represent to X, who is thinking of joining them, that the business is a profitable one

The Balance Sheet as on December 31, 19.., is shown to X as follows :—

LIABILITIES	£	£	ASSETS.	£
Capital Accounts—			Freehold Land and Works	5,500
Y	6,000		Plant and Machinery	2,800
Z	4,000		Loose Tools, Designs and Patterns	1,200
		10,000	Stock-in-Trade	4,200
Loan on Mortgage of Land and Works ..		2,500	Sundry Debtors	7,870
Bank Overdraft, secured by second charge on Land and Works and by personal security of a third party		1,200	Cash in hand	30
Sundry Creditors		6,300		
Balance of Profit and Loss Account		1,600		
		£21,600		£21,600

You are instructed by X to advise him, after making a careful investigation of the business; and are asked to report to him fully on the value of the Assets, as stated in the Balance Sheet, and as to the past profits of the business.

Assuming that the books had been properly kept, state what information you would require under each of these heads for the purpose of your report. (*Chartered Accountants.*)

48. Criticise the following Balance Sheet. Does it convey sufficient information to enable you to form a proper estimate of the company and its working ? If not, what further particulars would you require ?

LIABILITIES.

	£ s. d.	£ s. d.
Capital subscribed and paid up	99,997 10 0	
Shares issued to Vendors and Patentees ..	72,500 0 0	
		172,497 10 0
Creditors		3,657 13 11
Sales of Concessions and Patents		30,000 0 0
		£206,155 3 11

ASSETS.

	£ s. d.	£ s. d.
Patents	113,819 15 0	
Parliamentary Expenses	923 7 0	
Shares in other Companies	19,625 0 0	
		134,368 2 0
Machinery and Stock	21,372 12 8	
Lease and Furniture	2,392 16 9	
		23,765 9 5
Debtors	14,456 12 5	
Cash at Bankers	783 6 10	
		15,239 19 3
Net expenditure for year to March 31, 19..	16,302 14 1	
Net expenditure for year to March this year	16,478 19 2	
		32,781 13 3
		£206,155 3 11

(*Chartered Accountants.*)

49. Do you approve the form in which the following accounts are presented ? If not, prepare a Balance Sheet and Profit and Loss Account in accordance with your own views.

BALANCE SHEET.

Dr.	£
To Capital—10,000 shares of £10 each	100,000
,, Reserve Fund	3,000
,, Creditors (including Directors' remuneration) ..	2,248
,, Profit and Loss Account balance at credit	8,252
	£113,500

Cr.	£
By Land at cost	43,000
,, Buildings (*less* Depreciation)	20,000
,, Machinery and Plant (*less* Depreciation)	15,000
,, Debtors (*less* Reserve)	7,500
,, Stock at cost	8,000
,, Shares unissued (700 of £10 each)	7,000
,, Calls in arrear	925
,, Cash Balances	12,075
	£113,500

PROFIT AND LOSS ACCOUNT.

Dr.	£
To Directors' Remuneration, 3 % on the Profits as per Articles	348
,, Reserve Fund, proceeds sale surplus land *per contra*	3,000
,, Balance	8,252
	£11,600

Cr.	£
By Profit on Trading after deducting all expenses and allowing for depreciation, etc.	8,600
,, Proceeds sale of surplus land	3,000
	£11,600

(*Chartered Accountants.*)

50. The Ramshackle Motor Co., Ltd , acquired the undertaking of Messrs. Smith Bros , Ltd., as at the end of 19 .. The following Statement of Accounts, made up to June 30 following, is submitted to you for audit. Criticise the statement, taking at least six points (three on the Balance Sheet and three on the Trading and Profit and Loss Account).

BALANCE SHEET.

Dr.		£		Cr. £
To Capital		250,000	By Freehold and Buildings	87,650
,, £30,000 5 % Mortgage Debentures issued at 10 % Discount		27,000	,, Goodwill, Patents, Patterns, Plant, and Work in progress	74,342
,, Creditors—			,, Fixtures and Fittings (Office)	232
On Open Account ..	£16,444		,, Investments . . .	4,782
Debenture Interest	1,500		,, Cash at Bank and in hand .	12,411
		17,944	,, Capital unissued	25,770
,, Reserve for Bad Debts .. .		279	,, Debtors	2,075
			,, Stock	84,784
			,, Suspense Account	3,227
		£295,223		£295,223

TRADING AND PROFIT AND LOSS ACCOUNT.

Dr.	£		Cr. £
To Stock acquired from Vendors	21,441	By Sales	10,418
" Purchases	58,937	" Amounts paid on forfeited shares	385
" Wages	4,392	" Appreciation in value of Securities	210
" Rates and Taxes	1,174	" Stock, June 30, 19	84,784
" Debenture Interest	1,500	" Balance carried to Suspense Account	392
" Fuel and Lighting	1,052		
" Cartage	589		
" Office Expenses	3,441		
" Bad and Doubtful Debts	279		
" Preliminary Expenses	2,143		
" Directors' Fees	1,250		
	£96,198		£96,198

(*Chartered Accountants.*)

51. Appointed by a Committee of Investigation to report upon the year's accounts of the Blank Society, you find the following Profit and Loss Account and Balance Sheet. You learn from the secretary that he has not received any remuneration; and that the amount charged in the Profit and Loss Account was an amount passed by resolution of the Council of the Society after the date of the Balance Sheet, but for the period under review. Do you consider these accounts correct? If not, point out where error exists.

BLANK SOCIETY.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19...

Dr	£		Cr £
To Rent, Rates, and Taxes	300	By Entrance Fees	30
" Printing and Stationery	256	" Life Members	950
" Clerks' Salaries and Wages	420	" Annual Subscribers	763
" Office and other Expenses	130		
" Secretary's Salary	250		
" Balance down	387		
	£1,743		£1,743

BALANCE SHEET AS ON DECEMBER 31, 19...

Dr.	£			Cr. £
To Accumulated Fund	1,263	By Annual Subscriptions in arrear		73
" Annual Subscriptions paid in advance	25	" Cash at Bank	£1,597	
" Profit and Loss Account	387	" Cash in hand	5	
				1,602
	£1,675			£1,675

Audited and found correct,
X.

April 1, 19... (*Chartered Accountants.*)

52. Criticise the following Balance Sheet:—

THE STONE BUILDING CONSTRUCTION CO., LTD.

BALANCE SHEET FOR THE YEAR ENDED JUNE 30, 19...

Liabilities :—	£	£
Ordinary Share Capital		100,000
Preference Share Capital, 5½ %		100,000
Debenture Stock, £100,000, issued at £95		95,000
Depreciation of Plant and Machinery		2,500
Creditors, Bills Payable, Bank overdraft, etc.		83,547
Profit and Loss, Balance at June 30 last	2,726	
Profit for the year	12,141	
	14,867	
Less Preference Dividend	5,500	
	9,367	
Less proposed Ordinary Dividend	6,000	
		3,367
		£384,414

THE STONE BUILDING CONSTRUCTION CO., LTD.

BALANCE SHEET—(*continued*)

ASSETS :—	£	£
Goodwill, Patent Rights, etc, at cost ..	154,510	
Patent fees, etc, paid during the year ..	162	
		154,672
Unpaid Calls on Preference Shares		17,500
Plant and Machinery at cost		45,482
Stocks on hand at cost		24,418
Contracts not completed and work in progress	170,728	
Estimated profit thereon, 15 %	25,609	
	196,337	
Less received on account	130,000	
		56,337
Debtors for completed contracts, etc.		73,791
Petty Cash in hand		2,214
		£374,414

Signed by two directors on behalf of the Board, and certified by A B and Co., acting as auditors. (*Chartered Accountants*)

53. The following Balance Sheet was issued by the Eldorado Plantations, Ltd. :—

BALANCE SHEET, DECEMBER 31, 19...

DR.	£	£
Issued Share Capital ..	190,000	
Less Calls in arrear ..	8,000	
		182,000
Bank Loan		48,000
Sundry Creditors		3,647
Bills Payable		32,100
Profit and Loss Account—		
Profit for the year ..	9,120	
Less Interim Dividend paid	9,100	
		20
Depreciation Fund		5,000
		£270,767

CR.	£	£
Leasehold Land, Buildings and Machinery at cost . . .		200,000
Railway, Wharf, Motor Boats, Live Stock, etc., at cost	12,000	
Less Depreciation ..	500	
		11,500
Expenditure on 19.. Crop to date		48,400
Expenditure on 19.. Crop to date		685
Advances to Coolies and Sundry Debtors		6,850
Exchange Suspense Account		392
Cash on Plantation		1,850
Cash at Bankers in London		1,090
		£270,767

You are asked to criticise this Balance Sheet from the point of view of a prospective shareholder. If you desire any further information before giving your opinion, submit the letter which you would address to the secretary of the company. (*Chartered Institute Secretaries.*)

54. The Trial Balances of a company at June 30, 19.., are as follows :—

		DR. £	CR. £
Capital Account—			
40,000 shares of £1 each			40,000
Sundry Creditors			10,000
Provision for Bad Debts Account			500
Bankers			5,000
Profit and Loss Account			2,500
Call Account—			
5s per share on 8,000 shares		2,000	
Sundry Debtors		30,000	
J. Jones, Director		1,000	
Goods on sale or return at selling prices		6,000	
Investments—			
5,000 shares of £1 each with 10s. per share paid .. *cost*		3,250	
Stock at selling price		10,000	
Plant and Machinery as per last Balance Sheet ..	£5,000		
Additions since	500		
		5,500	
Cash in hand		250	

NOTE.—The Bankers are secured by an issue of Debentures for £5,000. The market value of the Investment at June 30, 19 ., is 5s. per share.

The directors have had the following Balance Sheet prepared, which they refuse to alter, and ask you, as auditor, to sign. In their report they recommend the payment of a dividend of 6 %.

BALANCE SHEET AT JUNE 30, 19...

CAPITAL AND LIABILITIES.	£	ASSETS.	£
Capital—		Plant and Machinery ..	5,500
40,000 shares of £1 each	40,000	Investment at cost . ..	3,250
Sundry Creditors	10,500	Stock	10,000
Bankers	5,000	Sundry Debtors	39,000
Profit and Loss Account .	2,500	Cash in hand	250
	£58,000		£58,000

State what points you would refer to in your report as auditor. (*Chartered Accountants*)

55 The Balance Sheet set out hereunder was issued to the members of the British Arts Association.

Have you any criticisms to offer ?

BALANCE SHEET, DECEMBER 31, 19...

DR.	£	£
CAPITAL ACCOUNT :—		
At date of incorporation	46	
Additions since	422	
		468
ENDOWMENT FUND .—		
At January 1, 19..	623	
Add Donations during year .	5	
		628
PROTECTION FUND —		
At January 1, 19	65	
Add Donations during year ..	22	
		87
Subscriptions paid in advance . ..		10
Sundry Creditors		62
		£1,255

CR.	£	£
CASH AT BANK .—		
Current Account..	22	
Endowment Fund	2	
Protection Fund	18	
Cash in hand	4	
		46
INVESTMENTS :—		
War Loan at Cost		596
ENDOWMENT FUND ACCOUNT —		
At January 1, 19	201	
Add Subscriptions and Donations received .—		
Endowment Fund	5	
Protection Fund . ..	22	
Balance of Income and Expenditure Account for the year to Dec. 31, 19	142	
		370
Office Furniture as per last Balance Sheet		52
Sundry Debtors		191
		£1,255

(*Chartered Accountants.*)

56. A manufacturer, whose accounts you audit, asks you to draft his Balance Sheet in a form which will disclose at a glance (*a*) The total Liquid Assets. (*b*) The total Fixed Assets (*c*) The total Intangible Assets. (*d*) The total Outside Liabilities. (*e*) The total Capital. (*f*) The total Reserves. (*g*) The total Working Capital. Draft a *pro-forma* Balance Sheet in response to this request. (*Chartered Accountants.*)

57. The Balance Sheet of a private limited company, as on December 31, 19.., was as follows :—

BALANCE SHEET, DECEMBER 31, 19...

DR.	£	CR.	£
Share Capital authorised and issued : 50,000 Shares of £1 each	50,000	Works and Sundry Assets..	55,000
Reserve Fund	100,000	Investments	100,000
Creditors	5,000		
	£155,000		£155,000

The directors desire to eliminate the Reserve Fund—as no valid reason exists for maintaining it at so large a figure—and ask your advice as to the best procedure to adopt.

Submit your report, and deal with the attitude the Income Tax authorities are likely to take up with regard to any suggestions you offer (*Chartered Accountants.*)

58. In a rubber estate all expenses are taken to an account, called "Development Account," until "tapping" begins in some block, when a Revenue Account and Profit and Loss Account are opened, and expenses divided proportionately between Capital and Revenue.

Draw up a *pro forma* Balance Sheet and Development Account, and show how the following particulars should be treated: Roads and bridges, stock of provisions, hospital expenses, felling, clearing and burning, fencing and planting, rent, salaries, wages and proceeds of sale of a "catch crop" of coffee.

When the estate begins to be productive, how would you divide expenses between Development and Revenue? (*Incorporated Accountants.*)

59. The understated accounts were sent to the subscribers of a well-known cricket club.

Submit any criticisms you have to offer.

COUNTIES CRICKET CLUB

RECEIPTS AND PAYMENTS FOR THE YEAR ENDED DECEMBER 31, 19...

Dr.	£
Balance from last year	1,884
Entrance Fees and Subscriptions	5,258
Interest on Stocks	622
Rents	631
Tennis Courts	52
Racquet Courts	41
Sale of score cards, photos, etc.	12
Loan from Bank for purchase of War Loan less paid off	12,750
Interest on War Loan	672
	£21,922

Cr.	£
Alterations and Repairs to Buildings	161
Salaries	652
Wages	1,521
Expenses of Matches	91
Coal	74
Printing, Advertising, and Sundry Expenses	142
Horse Hire	54
Rent, Rates, Taxes, and Insurance	1,532
Refreshment Department (Teas, Luncheons, etc.)	130
Purchase of War Loan	12,500
Purchase Arcadia Government Bonds	300
Interest on Bank Loans	807
	17,964
Balance: On Deposit	3,500
Current Account	440
In hand	18
	£21,922

REFRESHMENT DEPARTMENT.

BALANCE SHEET, DECEMBER 31, 19...

Dr.		£
To Creditors		406
" Capital Account		
Balance, Jan. 1, 19	£2,510	
Add Profit year to date	1,000	
		3,510
		£3,916

We have examined the above Balance Sheets with the books and find the same to be correct

ABEL COUNTER & SON,
Auditors

Cr.		£
By Cash at Bank		632
" Cash in hand		47
" Investments at Cost:		
£250 War Loan		237
National War Bonds		1,000
" Debtors		20
" Stock as valued		345
" Purchase Account:		
Balance, Jan 1, 19	£1,767	
Less Depreciation	132	
		1,635
		£3,916

(*Chartered Accountants.*)

60. The following Balance Sheet of the Wasting Assets Company, Ltd., as on December 31, 1901, was issued to the shareholders of the Company with the auditor's report (as required by the Companies Act, 1929) in its favour:—

WASTING ASSETS COMPANY, LIMITED.

BALANCE SHEET, DECEMBER 31, 19...

Dr.	£
To Share Capital, Nominal 100,000	
,, Subscribed and Paid	75,000
,, Sundry Creditors	20,000
,, Bankers	15,000
	£110,000

Cr.	£
By Buildings, Plant, and Machinery at cost ..	60,000
,, Stock and Materials as certified by the Manager	20,000
,, Sundry Debtors	15,000
,, Profit and Loss Account	15,000
	£110,000

The Company went into liquidation on January 1, 19.., under a compulsory order for winding up, and the official receiver reported that the value of the Fixed Assets had not been depreciated in the books of the Company since their erection in 1880; that the Stock and materials only existed to the extent of £2,000 at ordinary stocktaking values; and that of the £15,000 Debtors, £5,000 were three or more years old and utterly bad, and other £5,000 exceedingly doubtful and probably worth 10s. in the £. Do you think the auditor did his duty in reporting that the above Balance Sheet had been "properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, as shown by the books of the Company?" If you think he did his duty, state why you think so. If not, state where he failed in his duty, what you would have done in conducting the audit, and what report you would have given upon the Balance Sheet. (*Chartered Accountants*)

61. Criticise the following Balance Sheet Is it really a Balance Sheet? *If not, what is it? If you do not approve of it, amend it.*

BALANCE SHEET.

Dr.	£	s.	d.
To Share Capital, £15 per share paid up on 100,000 £20 shares	1,500,000	0	0
,, Amount paid in advance of Calls	304,275	0	0
,, Reserve Fund	500,000	0	0
,, Insurance Fund	121,454	18	5
,, 4 % Mortgage Debentures	900,000	0	0
,, Sundry Liabilities	855,829	12	6
,, Balance for the half-year carried down ..	98,953	5	3
	£4,280,512	16	2

	£	s.	d
To proposed Dividend at 12½ % per annum for the half-year, free of Income Tax ..	93,750	0	0
,, Amount proposed to be carried to the credit of the Insurance Fund .. .	5,203	5	3
	£98,953	5	3

BALANCE SHEET.

Cr.	£	s.	d.
By Freehold and Leasehold Land, Colliery, Buildings, and Plant	1,012,811	8	3
" Stock-in-Trade, Ledger Balances, Investments, and Cash in hand and at Bankers	3,267,701	7	11
	£4,280,512	16	2
	£	s.	d.
By Balance brought down	98,953	5	3
	£98,953	5	3

(*Chartered Accountants*)

62. The directors of W. A. Richardson, Ltd., ask you how the undermentioned assets should be valued for Balance Sheet purposes: (*a*) Ten Debentures of £100 each in Blanks, Ltd., purchased at par. The mean market price is now 82, but has fluctuated between this price and 105 since the date of purchase The Debentures represent the investment of part of the Reserve Fund. (*b*) A machine purchased a year ago for £1,000, but which, owing to improvements in manufacture, can now be bought for £750. (*c*) Patent Account, £1,275. This item represents patent fees and cost of experiments in connection with a patent. The grant of letters patent is dated two years ago. The patent has been very successful and could be sold for £6,000–£8,000. (*Chartered Accountants.*)

63. A finance company, which had paid £90,000 for six patents of equal value, sold one of these patents during the first year of its existence, and received, as the consideration for the sale, 55,000 fully paid shares of £1 each in a subsidiary company formed for the purpose of working the patent.

In the second year, the finance company sold the 55,000 shares in the subsidiary company for £30,000

How would you, as auditor, expect the 55,000 shares, or the proceeds of them, to be treated in the accounts of the finance company at the end of the first and second years respectively? (*Chartered Accountants.*)

64. On January 1, 19 , a firm of engineers and bridge-builders obtained a contract for a bridge to be completed in three years, which was to cost £100,000, and upon which they expected to reap a net profit of £10,000. In the first year they received advances (upon certificates) of £30,000, in the second year of £30,000, and the balance of the contract in the third year. Would you, as an auditor, approve of any profit being credited to the first and second years? and, if so, how much? (*Chartered Accountants.*)

65. Are there in your opinion any circumstances which would justify the addition to actual cost of any anticipated profit, in the case of partially manufactured goods, or of an uncompleted engineering contract, or in similar cases? (*Chartered Accountants.*)

66. A company is carrying out a number of contracts which are in various stages of completion You find in the Balance Sheet an asset described as "Works in Progress, £221,000," and on the Revenue Account a credit entitled, "Profit on contract to date, £19,600." How would you satisfy yourself as to the correctness of those amounts (*Chartered Accountants.*)

67. When preparing a Balance Sheet upon what principle should outstanding consignments be valued? (*Chartered Accountants.*)

68. You are auditor of the Eldorado Trust Company, Ltd.

You find that the investments—which were all purchased prior to July 19..—are stated at cost price in the Balance Sheet as on December 31, 19...

Upon endeavouring to ascertain the extent to which depreciation has occurred in the value of these investments, you find: (*a*) That upon three-fourths of the total sum represented by the investments the depreciation shown by mean market quotations as on December 31, 19.., amounted to £13,584. (*b*) That quotations for the remaining investments were not

available. (*c*) That one investment (included in class (*b*) above) was represented by expenditure, amounting to £9,875, upon a rubber plantation, situate in a South American State, and now become derelict owing to a revolutionary war.

The directors contend that, under the circumstances, the investments should remain in the Balance Sheet at cost.

What are your views? (*Chartered Accountants.*)

69. The market value of the investments of a trust company has fallen considerably while the company has earned enough income to pay the usual dividend How should you deal with this position of affairs in auditing the Annual Accounts? (*Chartered Accountants.*)

70. The auditors of the Capital Trust Company, Ltd., have pointed out to the directors that several of the Company's securities are unsatisfactory. In their report to the members, however, they only say that "the value of the assets as shown in the Balance Sheet is dependent on realisation." Discuss whether the auditors have discharged their duty to the Company. (*Central Association Accountants.*)

71. In May 19.., the General Finance and Agency Company, Ltd., underwrite an issue of 150,000 5 % Preference Shares of £1 each of the Australian Trading Company, Ltd, for a commission of 5 %. As a result of the issue they have to take up 75,000 shares.

In August 19.., they sell 10,000 shares at 20s. 6d. per share net.

In November 19.., they sell 15,000 shares at 17s 6d. per share net.

On December 31, 19.., at which date the accounts of the Company are made up, the middle quoted price is 16s. 6d. per share

On what principle should the above transactions be dealt with in the Balance Sheet and Profit and Loss Account of the Finance Company? (*Chartered Accountants.*)

72. A limited company having purchased shares in another company, with the object of securing business connection, and there being no transactions or market quotations by which the value of the shares may be fixed from year to year: state your opinion of the method which should be adopted by the company holding the shares for valuing them and stating this asset in its accounts, in the case of the benefits arising therefrom improving from year to year. (*Chartered Accountants.*)

73. The Birchets Mineral Water Company, Ltd, sends out cases of aerated water to chemists in various parts of the country "on sale or return." Each chemist is at once debited in the Company's books with the water supplied at the price he is to obtain for it when sold, and is allowed to deduct 10 % from this value when accounting for his sales The personal accounts of all chemists so supplied are included in the ledger balances at the end of the year. How would you deal with these accounts when preparing the Company's Profit and Loss Account and Balance Sheet? (*London Chamber Commerce.*)

74. Flotations, Ltd., sold a mining concession, which stood in their books at £6,750, to a subsidiary Company (Eldorado, Ltd.) for £15,000, payable as to £5,000 in cash and £10,000 in fully paid shares. They also undertook to pay all expenses of the flotation of Eldorado, Ltd., up to allotment, viz. £1,585 No quotation is available for the shares of the subsidiary Company, and the market is very restricted.

How should you deal with the above flotation in the books of Flotations, Ltd.? (*Royal Society Arts.*)

75. In examining a list of Debtors and Creditors with the ledger accounts for the purposes of a Balance Sheet, to what features of each account should you pay attention apart from the mere arithmetical correctness of the extractions? Give examples of error or fraud which may be detected in this process. (*Chartered Accountants.*)

76. How would you satisfy yourself, as auditor, that the assets of a company were not mortgaged or encumbered in any way? If you found that an asset was mortgaged or encumbered, would you expect this fact to be stated on the Balance Sheet? (*Chartered Accountants*)

77. The particulars of the Share Capital of a company are as follows: Authorised, 20,000 shares of £1 each. Issued to the Vendors, 10,000 shares fully paid. Issued to others, 10,000 shares with 10s. per share called up. Of these shares 800 had been forfeited upon which 5s. per share had been paid. Calls unpaid, £1,000. Calls paid in advance, £2,000.

The Balance Sheet is presented to you for audit with the one item covering the above: "Capital paid up, £15,800"

Write your comments upon this. (*Chartered Accountants.*)

78. A company borrowed £100,000 on the security of its uncalled capital. What consequent entries should be made. (*Chartered Accountants.*)

79. The Blakewell Manufacturing Company, Ltd., issued debentures to the extent of £10,000 at 5 % discount. The underwriting costs, etc., amounted to $2\frac{1}{2}$ % on the issue Show how these transactions would appear in the books of the Company and in the Company's Balance Sheet, assuming that neither the discount on the issue nor the underwriting costs, etc., had been written off on the date on which the Balance Sheet was prepared. (*London Chamber Commerce.*)

80. A limited company has outstanding Debentures redeemable at a future date. A redemption policy is taken out, and the premium paid annually. The policy acquires a certain surrender value. What entries in the books and annual Balance Sheet and Profit and Loss Account would you, as an auditor, be satisfied with as properly recording the above transaction. (*Chartered Accountants.*)

81. A limited company issued £100,000 5 % Debentures at 95, repayable at par in ten years. The whole issue was underwritten at $1\frac{1}{2}$ % commission. The legal and other expenses of the issue amounted to £1,162

As auditor to the company, how should you require these facts to be stated in the published accounts? (*Chartered Accountants.*)

82. In 19.. George Hayward & Co., Ltd., issued 400 5 % Debentures of £100 each at par. During 19.. they purchased 50 of these Debentures in the open market at 95, and cancelled them.

Show how this transaction would affect the Balance Sheet prepared as on December 31, 19... (*Royal Society Arts.*)

83. On January 1, 19.., Rayon d'Or, Ltd., offered for subscription 500 5 % Debentures of £100 each at par. The list was closed on January 10th, 100 Debentures only being applied for. On March 1, 19.., the balance of the issue was offered for public subscription at 98, and 300 Debentures were applied for as on March 10th.

On July 1, 19.., being in need of funds, the Company borrowed £5,000 from the Bank, with whom they lodged the remainder of the Debenture issue by way of collateral security.

Give the entries necessary to record these transactions in the Company's books, and show how they would appear in the Balance Sheet.

Assume that all the Debentures applied for by the public were duly paid for as on January 12th and March 12th respectively. (*Royal Society Arts.*)

84. On January 16, 19.., Testouts, Ltd., obtained a loan of £5,000 from their Bankers, and deposited with them as security £3,000 Ordinary Stock of the Great Southern Railway (present market price 85) and £3,000 Blankshire Gas Company Ordinary Stock (present market price 90).

This loan was credited on the above date to the Current Account of the Company. The balance at the credit of the Company than stood at £7,562. On January 18, 19.., the Company applied for £6,500 of a new 5 % Municipal Loan at 95, for which they paid in full on application.

Show how these transactions would appear in the books and Balance Sheet of the Company. (*Royal Society Arts.*)

85. What do you understand by the phrase "the working capital of a company"? Set out with imaginary figures how it could be shown in accounts published for the information of shareholders. (*Incorporated Accountants.*)

86. Give a definition of the term "Contingent Liabilities" as applied to the Balance Sheet of a limited company, and state what items of this nature would be likely to appear in the Balance Sheet of a company carrying on the business of railway wagon and carriage builders. (*Chartered Accountants.*)

87. Define: "Contingent Liability," "Collateral Security," and state how you would treat them in the Final Accounts of a firm? (*Incorporated Accountants.*)

88. A limited liability company to which you have been appointed auditor has discounted with its bankers all bills drawn upon its customers. Does this procedure call for any notice by you? (*Central Association Accountants.*)

89. You are preparing the Balance Sheet of a limited company of which you are the chief accountant, and find that there are bills under discount amounting to £10,750. On going through the books you discover facts which point to the probability that £1,000 worth of these bills will be dishonoured on maturity, but that there is a reasonable chance of eventually receiving 10s. in the £ on the £1,000. How would you deal with these bills under discount, and how should they appear in the company's published accounts? (*London Chamber Commerce.*)

90. During the audit you are making of the accounts of a company, you become aware of a claim against the company which you think is likely to be enforced, but which the directors do not recognise, and for which they will make no reserve. What would you do in the circumstances? (*Chartered Accountants.*)

91. What items would you expect to find under the heading of "Contingent Liabilities" in the Balance Sheet of a limited company carrying on the business of railway and dock contractors? How would you ascertain the existence of such liabilities? (*Chartered Accountants.*)

92. In auditing the accounts of a company there is produced to you, as security for an advance, a certificate in the name of the borrower for 200 fully paid shares in another company, and an unstamped transfer executed by the borrower for them, left blank as to transferee, consideration, and date

Can this be passed as a loan secured on the shares; and what importance do you attach to the blank transfer, and why? (*Chartered Accountants.*)

93. A limited company obtained a loan of £15,000 from its bankers, and deposited 200 of the company's 6 % Debentures of £100 each as security.

The company had previously made a public issue of 300 6 % Debentures at 98, all of which had been subscribed and paid up.

How should these issues be stated in the company's Balance Sheet? *Chartered Institute Secretaries.*)

94. The books at the Oxford Street Drapery Company, Ltd., contain the following credit balances: Reserve Fund, £50,000 (this Fund is invested in Government Securities); Contingencies Account, £2,400; Leasehold Reserve Account, £27,640; Plant Depreciation Account, £6,380; Bad Debt Reserve, £8,400; Share Premium Account, £16,500. The Company propose on their Balance Sheet to state: To Sundry Reserve Funds, including premiums on shares, £111,320.

State objections to the above procedure, giving reasons and alternative method. (*Chartered Accountants.*)

95. Assuming the following facts, and that the board of a cigarette manufacturing company declined to amend the figures of the Balance Sheet presented to you for audit, what observations, if any, would you make thereon in your "Report to the Shareholders"?

The subscribed capital was £50,000, all called up, but £10,000 thereof was represented by "Calls in Arrear," all due from directors.

The "Stock of Tobacco" was valued at the market price at the date of the Balance Sheet, but was in excess of the actual cost.

No reference was made to "Bills under Discount." (*Chartered Accountants.*)

96. "Sundry Creditors, including credit balances," is an item sometimes seen in accounts. What in your view are the dangers of such an item, and in what respect could it be used for wrong purposes? (*Incorporated Accountants*)

97. What are the proper methods of dealing with the following accounts in the Balance Sheet of a manufacturing company: (1) Unfinished goods in course of manufacture. (2) Contracts in progress. (3) Contracts nearly completed? (*Incorporated Accountants.*)

98. In closing the books of Robert Sawyer you find the undermentioned items. How would you deal with these transactions when preparing the annual accounts for the year ended December 31, 19..? (i) Fire insurance premium (£50) paid on June 30, 19 ., covering the twelve months to June 30 next. (ii) Salaries (£125) accrued due to A, B, and C, but not yet drawn by them. (iii) R. Robinson paid £100 in advance in full settlement for work which was being executed for him under a contract. The cost of the work completed up to December 31, 19.., amounted to £39, when it was estimated that half the contract had been completed. (iv) Patents Account showed a debit balance of £557 7s. This amount consisted of patent rights (six years to run) purchased for £550, and renewal fees for the year 19.., £7 7s. (v) Three years ago Robert Sawyer bought a milling machine for £200, and depreciation, at the rate of 10 % upon the diminishing balance, has been written off each year; the same machine, however, can now be bought for £120 owing to improvements in manufacture. (*London Chamber Commerce.*)

99. During the year ended December 31, 19.., the following transactions appeared in the books of Herriotts, Ltd. State, in each case, where the item should appear in the published accounts of the Company: (*a*) Land, forming part of the Company's freehold property, was sold for £6,008. (*b*) 50,000 new Ordinary Shares of £1 each were issued at a premium of 5s per share. (*c*) Underwriting commission amounting to £1,250 was paid for placing the new shares. (*d*) 100 Preference Shares, upon which £50 had been paid, were forfeited. (*London Chamber Commerce.*)

100. What evidence would you require for the verification (in the accounts of a limited company) of the following: (1) Authorised Capital; (2) Additions to Machinery during the period under review; (3) Directors' Remuneration; (4) Value of Work in progress on Uncompleted Contracts; (5) Depreciation of Leaseholds; (6) Patent Rights. (*Chartered Accountants.*)

101. How would you deal with the undermentioned items when preparing the Annual Accounts of a company: (*a*) Premiums received on an issue of Debentures. (*b*) A Policy on the life of A B for £5,000 (payable at death without profits), taken over against a bad debt of £6,000. A B is seventy next birthday, and the annual premium on the policy amounts to £130. (*c*) A new cigarette-making machine invoiced at £750, from which an allowance of £300 was subsequently made in consideration of the machine being exhibited in daily use at the company's stand at the Franco-British Exhibition (*Royal Society Arts.*)

102. How should you require the undermentioned items to be dealt with in the published accounts of a limited company presented to you for audit for the year ended March 31, 19..? (*a*) A payment of £500 for an unexercised option, forfeitable on non-completion, to purchase a rubber estate for £15,000. The option expires on May 15, 19... (*b*) A payment of £1,500, being 10s. per share paid on application and allotment on 3,000 shares of £1 each in Testouts, Ltd. (*c*) £1,000 paid into Court in respect of a pending action for damages, in respect of which £10,000 has been claimed. (*Chartered Accountants.*)

103 In preparing the accounts of a limited company as on December 31 19. , how would you deal with the following: Amount paid on forfeited shares (not re-issued), £200 Rates paid September 30, 19.., for the half-year to March 31, next, £250. Rent (£800 per annum) has been paid to September 29, 19... Commission due to travellers for 19.., which has not passed through the books, £300. Bills discounted which have not yet

matured, £1,500. £10,000 Debenture Stock of the company was issued on July 1, 19.., at par, repayable in five years at 102. (*Chartered Accountants*)

104. In preparing the accounts of a limited company, how would you deal with the following items? (*a*) £1,000 received from an insurance company for stock destroyed by fire. (*b*) Goods out " on appro " amounting to £50 (cost price £42) which have been passed through the sales book as a sale. (*c*) £43 paid for registration of trade marks and designs, and £12 patent renewal fees. (*d*) Goods valued at £1,000 had been shipped at the consignor's risk to America, and insured against all risks. The vessel carrying the goods was torpedoed and the cargo lost. The unaccepted bill with documents attached, drawn on the consignees, had been discounted for £940. The insurance claim had not been settled. (*London Chamber Commerce.*)

105. How should you deal with the undermentioned items when preparing the Annual Accounts of a limited company? (1) £586 being sale of a machine purchased two years previously for £1,000 (and since depreciated at 10 % on the diminishing balance) replaced by new machine, for which £800 was to be paid in eight half-yearly instalments, 5 % interest being charged half-yearly on the balance outstanding. (2) 1,000 shares of £1 each fully called, upon which 5s. per share had been paid, had been forfeited, and subsequently re-issued for a cash payment of 17s. 6d. per share. (3) £1,000 paid into Court in respect of a pending action for damages, under which £5,000 was claimed. (4) £10,876, representing expenditure upon an estate situate in an enemy colony, and now derelict owing to the war. (*Chartered Institute Secretaries.*)

106. On January 1st, a brewery company bought a fifty years' lease of a public house for £15,000, and sold an underlease, *less* a few days, to the tenant for £14,500, by which he was tied for beer under a penalty of cancelment of the lease, the brewery company guaranteeing it, and he borrowed £9,000 from the brewery company on second mortgage, repayable £200 per annum. How would you have these stated in the company's Balance Sheet at December 31st? and give your reasons, assuming that the interest and the first instalment of £200 had been paid up on that day. (*Chartered Accountants.*)

107. How should the undermentioned items be treated in the Accounts of a limited company? (1) An issue of 1,000 Debentures of £100 each, issued January 1, 19.., at 90, repayable ten years later. (2) An expenditure of £5,000 on advertising a new patent medicine The sales for the first year amounted to £1,500, but were on the up grade. (3) A debt owing by a director of the company. (*London Chamber Commerce*)

108. How would you treat the undermentioned items in preparing the Annual Accounts of a limited company? (1) Premium of £5,000 paid for a twenty-one years' lease of a city warehouse. (2) £525 expended in costs of issue of £10,000 4½ % Debentures repayable ten years from the date of issue (3) £3,000 expended in structural alterations to the above-mentioned warehouse. (4) Drawings of a managing director in excess of his commission and fees, £1,500. (5) Expenditure of £2,000 on advertising a new article introduced to the public during the second half of the company's financial year The sales of the article to the close of the year amounted to £750, and there is every prospect of considerable growth in the sales if advertising be continued. (*Chartered Accountants.*)

109. When closing the books of a limited company as on June 30, 19.., how would you deal with the following? (*a*) A remittance of £1,000 was sent on June 30th to the Manchester branch, but did not reach Manchester until July 1st, and did not therefore appear in the branch Trial Balance. (*b*) The company's Reserve Fund, amounting to £10,000, was invested in Consols which stood in the books at the cost price, viz. 81⅞, the price when the books were closed being 65. (*c*) When paying an interim dividend to the shareholders, Income Tax, amounting in all to £382 7s. 4d., was deducted. (*London Chamber Commerce.*)

110. How would you deal with the undermentioned items when preparing the Annual Accounts of a limited company? (1) Transfer of £5,000 to Reserve Fund (2) £750 commission and expenses incurred in the issue of £8,000 4 % Debentures repayable in eight years from the date of issue. (3) Transfer of £3,500 to the company's own Marine Insurance Fund. (4) An issue of 100 5 % Debentures of £100 each at 95 repayable in ten years from the date of issue at par. (*London Chamber Commerce.*)

111. How would you treat the undermentioned items when preparing the Accounts of a limited company? (1) 500 shares of £1 each, fully called, upon which 10s. per share had been paid, were forfeited and subsequently re-issued for a cash payment of 18s. per share. (2) Removal expenses to new works, £5,386. (3) Goods, value £1,785, consigned to an enemy colony prior to the war, and of which no news is available. (4) Goods, purchased on "sale or return," and invoiced at £950, and still on hand, but damaged to the extent of £100 as the result of a fire. (*Royal Society Arts.*)

112. The Ophir d'Or Contracting Company, Ltd., possess considerable holdings of shares in subsidiary companies acquired in part payment for contract work. When preparing the Annual Accounts of the Company, how would you deal with the following? (*a*) Shares held in associated companies. (*b*) At the close of the year a sum of £10,000 had been expended upon uncompleted contracts, the profit upon the work completed being estimated at £1,950. (*London Chamber Commerce.*)

113. In closing the books of a company at December 31, 19.., the following open balances are left for you to deal with: (*a*) Insurance Account, £60 (representing the payment of annual insurance premiums, due September 30, 19..) (*b*) Income Tax, Schedule D, £150 (representing the payment of tax for the year ended 5th April prior). (*c*) Forfeited Shares Account, £250 (representing 10s. per share paid on 500 £1 shares).

NOTE.—The issued capital is 10,000 shares of £1 each, fully called. No other calls are in arrear.

How should these amounts appear in the annual statement of accounts? (*Chartered Accountants.*)

114. The business of Bruce Bros. & Co. was registered as a limited company with a nominal capital of £400,000, divided into 4,000 shares of £100 each. 500 of these shares were issued as fully paid in part payment of the purchase price of the business. 3,200 of the remaining shares were allotted to the public, and fully called up. 25 4½ % Debentures of £1,000 each were also issued and taken up.

On December 31st, the following accounts remained open in the Company's books: Share Capital Account, £320,000; Fully Paid Shares Account, £50,000; Land and buildings, £282,000, Sundry Creditors, £18,485; Investments, £8,450; Cash, £6,200; Preliminary Expenses Account (Balance), £1,250; Goodwill Account, £15,000; Calls in Arrear, £525; Debenture Account, £25,000; Stock Account (December 31st), £9,000; Plant Account, £78,580; Sundry Debtors, £28,000; Reserve Fund, £8,000; Profit and Loss Account (undistributed balance), £7,520. Prepare a Balance Sheet as on December 31st. (*London Chamber Commerce.*)

115. Roses, Ltd., was registered in 19.. with a nominal capital of £100,000, divided into 50,000 Ordinary Shares of £1 each, and 50,000 6 % Preference Shares of £1 each. The Company was formed to acquire an old-established business. The purchase price was agreed at £50,000, payable as to £15,000 in Ordinary Shares, £15,000 in Preference Shares (both fully paid), and £20,000 in cash. The balance of both classes of shares was offered to the public and fully subscribed, and the amounts due, 5s. per share on Application, and 5s. on Allotment, were paid The assets and liabilities taken over (at agreed values) from the old company were as follows: Freehold Works, £15,000; Plant and Machinery, £6,000; Stock, £4,000; Sundry Debtors, £12,000; Patents, £4,000; Sundry Creditors, £1,000. Give the Journal entries necessary to record the above transactions in the books of the Company, open its Ledger and show its initial Balance Sheet. (*Royal Society Arts.*)

CHAPTER VII

JOINT STOCK COMPANIES—IV

DISSOLUTION.

WHERE the Registrar of Companies has reason to believe that a company is not carrying on business or in operation, he may send a letter to the company inquiring whether the company is carrying on business or in operation. If he receives no reply within a month, he must then within a further fourteen days send a registered letter allowing a further month for a reply. Failing a reply to the second letter, he may then publish in the *Gazette* and send to the company a notice to the effect that, unless cause is shown to the contrary, the company will, at the expiration of three months from the date of the notice, be struck off the Register. At the expiration of the time mentioned in the notice, and cause to the contrary not having been shown by the company, the Registrar shall publish notice thereof in the *Gazette*, and on the publication of the notice the company shall be dissolved. The liability, if any, of every director, managing officer, and member of the company shall continue and may be enforced as if the company had not been dissolved, and the power of the Court to wind up a company the name of which has been struck off the register remains unaffected (S. 295).

LIQUIDATION.

The term " liquidation " is applied to the legal process by which a limited company is wound up. As popularly employed, the word is assumed to be equivalent to the word " bankruptcy " used in relation to the affairs of a private trader, but the words are not synonymous, since liquidation does not necessarily imply insolvency. There is this important difference between bankruptcy and winding up. In bankruptcy the debtor's assets become at once vested in the trustee; in a winding up the company remains in existence after the winding-up order has been granted or the resolution to wind up has been passed, and the property of the company remains vested in the company and does not pass to the Liquidator But the powers of the directors cease on the appointment of a Liquidator, except so far as he, or the company in general meeting, may sanction their continuance, or the Liquidator sanctions them for special purposes. A Liquidator is an agent for the company He represents both creditors and contributories, and must see that justice is done between them. The winding up of a company by reason of inability to discharge its debts is

practically equivalent to the bankruptcy of a private trader, and the subsequent procedure, though in some respects it is more complicated, is in effect similar to bankruptcy proceedings.

The regulations as to the winding up of companies are contained in Part V of the Act of 1929, and the procedure in such cases is laid down in the *Companies (Winding-up) Rules*, 1929. The sections and rules referred to in the ensuing chapter are taken from the Act of 1929 and the *Companies (Winding-up) Rules*, 1929. Part X of the Act of 1929 extends the provisions of Part V to unregistered companies, i.e. to any partnership, association, or company consisting of more than seven members, and any trustee savings bank certified under the *Trustee Savings Banks Act*, 1863, and any limited partnership, so that such concerns may, with the modifications introduced in Part X, be wound up in the same way as registered companies, but not voluntarily, or under supervision of the Court.

Under S. 154 the Court has power, in connection with a scheme under S. 153 (see p. 257), to order the dissolution of a company without liquidation.

Three Methods of Winding Up.—Limited companies may be wound up by one of three processes:—

(1) By the Court (Compulsory Liquidation).
(2) Subject to the supervision of the Court (Liquidation under Supervision).
(3) Voluntarily (Voluntary Liquidation).

The Courts having jurisdiction to wind up companies registered in England are, by S. 163: the High Court, the Chancery Courts of the Counties Palatine of Lancaster and Durham, and the County Courts, except those County Courts which have no jurisdiction in bankruptcy, e.g. the Metropolitan County Courts. Where the paid-up share capital of a company does not exceed £10,000, and the company's registered office is situated within the jurisdiction of a County Court having jurisdiction in winding-up proceedings, the petition to wind up shall be presented to that County Court. Where the amount of the paid-up share capital exceeds £10,000, the petition shall be presented to the High Court, or, if the registered office of the company is situated within the jurisdiction of either of the two palatine Courts mentioned above, then either to the High Court or to the palatine Court having jurisdiction.

There are considerable differences of procedure in the three methods of liquidation, differences which to some extent account for the comparative popularity of Voluntary Liquidation.

The Three Methods Contrasted.—As the term implies, the proceedings in a *compulsory liquidation* are immediately controlled by the Court. The Liquidator is an officer of the Court, and the formal requirements of the Board of Trade must be strictly complied with. For these reasons the process is both slow and costly. But the method has this advantage. It is the only one of the three which permits a public examination of the promoters, the directors, and other officers of the company, if such an examination should seem to be called for (S. 216).

A *liquidation under supervision* is practically a voluntary liquidation conducted under such restrictions as the Court may impose. The voluntary liquidator appointed by the company is usually continued in office, and, as creditors and contributories may apply to the Court for relief in voluntary liquidation (S. 252), orders for liquidation under supervision are comparatively rare.

Voluntary liquidation, as already remarked, is the most popular method of winding up a limited company, and does not necessarily imply insolvency, since a solvent company may proceed by way of a *Members' Voluntary Winding Up* (see p. 437). Amalgamation, absorption, reconstruction, or other rearrangement of a company's affairs may necessitate a member's voluntary liquidation. The proceedings are then largely in the hands of the company and its agent the Liquidator Where the company is insolvent, the proper procedure is by a *Creditors' Voluntary Winding Up* (see p. 437), and in such a winding up the creditors are given a greater measure of control by means of a Committee of Inspection. Where the rights of a creditor or contributory would appear to be prejudiced by a voluntary winding up, he may petition the Court to have the company wound up by the Court or under supervision, and the commencement of voluntary liquidation is no bar to such petitions. Generally the Liquidator, or any contributory or creditor, may apply to the Court to determine any question arising in the winding up, or to exercise any of the powers which the Court might exercise if the company were being wound up by the Court. As a general rule, however, the Court will not interfere if the rights of all parties are respected.

Powers of a Liquidator.—The powers of a Liquidator are defined in the Act of 1929 (S 191) and the *Winding-up Rules*, 1929. In a compulsory liquidation the Liquidator in England has power under the Act, with the sanction of the Court or the Committee of Inspection, or the Board of Trade, where there is no such Committee, to.—

(*a*) Bring or defend any action or other legal proceeding in the name and on behalf of the company.

(*b*) Carry on the business so far as it may be necessary for the beneficial winding up thereof.

(*c*) Employ a solicitor or law agent to assist him in the performance of his duties.

(*d*) Pay any classes of creditors in full

(*e*) Compromise with creditors or contributories

In Scotland, the Liquidator can only do the above things with the sanction of the Court. In England the Liquidator can, on his own authority, and in Scotland with the sanction of the Court.—

(*f*) Sell the property and assets of the company.

(*g*) Execute deeds, receipts, and documents, and use the company's seal.

(*h*) Prove in the bankruptcy of any contributory.

(*i*) Draw, accept and endorse bills of exchange on behalf of the company.

(*j*) Borrow money on the security of the company's assets

(*k*) Take out in his own name letters of administration to any deceased contributory.

(*l*) Appoint an agent to do any business which the liquidator is unable to do himself.

(*m*) Do all such other things as may be necessary for the winding up of the company and the distribution of its assets.

By the *Winding-up Rules* the Liquidator in England has power:—

(*n*) To summon meetings of creditors and contributories.
(*o*) Fix a date on or before which creditors must prove their debts or be excluded from participation in the distribution of the assets.
(*p*) Settle the list of contributories
(*q*) With the sanction of the Court or the Committee of Inspection, make calls on the contributories.

The Liquidator has the right at any time to apply to the Court for directions. He must give effect to the decisions come to at creditors' or contributories' meetings, and where they are in conflict, the decisions of a creditors' meeting have preference over those of a contributories' meeting. The Liquidator *must* summon such meetings when requested so to do by one-tenth in value of the creditors or contributories [S. 192, s -s. (2)]. Any person has leave to appeal to the Court against any act of the Liquidator.

Voluntary Liquidation.—In a voluntary liquidation the Liquidator may exercise without the sanction of the Court all the powers of a Liquidator in a compulsory winding up, including the powers of the Court to settle the list of contributories and make calls. In addition, in the case of a members' voluntary winding up, with the sanction of an extraordinary resolution of the company, and, in the case of a creditors' voluntary winding up, with the sanction of either the Court or the committee of inspection, he may pay any classes of creditors in full and compromise with creditors or contributories. With the sanction of a special resolution (and, in the case of a creditors' voluntary winding up with the sanction either of the Court or of the committee of inspection (S. 243)), he may (under S. 234) sell the assets of the company for shares in another company to be distributed amongst the members of the old company being wound up. Under S. 153 a compromise may be made with creditors or contributories, if the resolution authorising it is carried by a majority in number representing three-fourths in value of the creditors or class of creditors or members or class of members present and voting either in person or by proxy at the meeting called for the purpose, and sanctioned by the Court. Power to compromise with creditors is also conferred by S. 251. But as the majority required in the latter case is three-fourths in number and value and consequently difficult to obtain, the sanction of this section is not often invoked. In practice many compromises, not involving large amounts, are made on the Liquidator's own responsibility.

Winding Up under Supervision—The powers of the Liquidator in a supervisory winding up are those of a Liquidator in a Voluntary Winding Up, except that he is subject to such restrictions as the Court may impose.

Compulsory Liquidation.

By S. 168 a company may be wound up by the Court in any of the following events:—

(1) If a special resolution to that effect has been passed.

(2) If default is made in filing the statutory report or holding the statutory meeting.

(3) If the company fails to commence business within one year of incorporation, or suspends business for a whole year

(4) If the number of members is reduced below two in a private, or seven in the case of any other company

(5) If the company is unable to pay its debts.

(6) If the Court is of the opinion that it is just and equitable that the company should be wound up.

The number of companies wound up by the Court is very small, being less than 7 % of those wound up voluntarily; but when the promotion or subsequent management of the company appears to require strict investigation, compulsory liquidation is frequently to be preferred to the more expeditious and economical voluntary method.

How Compulsory Liquidation Arises.—The initiation of a compulsory liquidation generally arises out of hostile proceedings designed to terminate the company's career. The company itself or a contributory may present a petition, but usually the petition emanates from a creditor, who supports it by alleging the company's insolvency A company is considered to be unable to pay its debts (S. 169) *inter alia*:—

(*a*) If a creditor for an amount over £50 lodges, at the registered office of the company, a written demand for payment and the company fails to satisfy the debt within three weeks.

(*b*) If in England or Northern Ireland execution on a judgment is returned unsatisfied.

The petition must give the grounds on which it rests, must be supported by affidavit, and served at the company's registered office, and must be advertised at least seven clear days before the hearing in the *Gazette*, and, if the registered office (or if there is no such office, then the principal place of business) is or was situate within ten miles of the Royal Courts of Justice, in one London daily morning newspaper, or in such other newspaper as the Court directs; in the case of any other company, the additional advertisement must be in a local newspaper circulating in the district where the registered office (or principal or last known principal place of business) is or was situate. Creditors and contributories are entitled to attend the hearing, and to oppose, or support, the granting of the petition. A Compulsory Liquidation dates from the time when the petition was presented, unless a resolution has already been passed by the company for voluntary winding up, in which case the date of the resolution is deemed to be the commencement of the winding up (S. 175).

Appointment of Official Receiver.—If the petition is granted, a winding-up order is made, and the Official Receiver, who at once becomes the provisional Liquidator, is notified. His first duty is to serve a copy of the order on the company, and to file similar copies with the Registrar and the Board of Trade, and send notice of the order to such local paper as the Board of Trade may from time to time direct, or in default of such direction, as he may select. Until some other person is appointed Liquidator,

the Official Receiver continues to act in that capacity, and in a large number of cases the proceedings remain in his hands. If he satisfies the Court that the business requires it, a *Special Manager* will be appointed to manage the business, but leave to carry on will not be granted unless it is shown that by continuing the business the estate will be realised more beneficially. A merely possible or even probable chance of making profits will not suffice to secure authority to continue.

Statement of Affairs, and Report.—One of the first duties after the grant of the order is to prepare a Statement of Affairs in the prescribed form, unless, as rarely happens, the Court dispenses therewith (S. 181). Fourteen days are allowed in which to submit the statement to the Official Receiver. The duty of preparing the statement falls on the directors and secretary. On receipt of the Statement of Affairs, the Official Receiver makes a preliminary report on the estate to the Court, showing the amount of the capital issued, subscribed and paid up; the estimated amount of assets and liabilities; and, if the company has failed, the causes of failure, and whether in his opinion further inquiry is desirable into the promotion, formation, or failure of the company, or the conduct of its business [S 182, s.-s. (1)]. He may also make a further report, stating the manner in which the company was formed, and whether in his opinion any fraud has been committed by any person in its promotion or formation, or by any director or other officer in relation to the company since its formation, and any other matters he desires to bring to the notice of the Court [S. 182, s.-s. (2)]. If the Official Receiver states that in his opinion a fraud has been committed, the Court may, on receipt of the report, order a public examination of the conduct of the promoters or officers, or other persons against whom the fraud is alleged [S. 182, s.-s. (3) and S. 216, s.-s. (1)]. Any person so named can be restrained by order of the Court from being a director or taking any part in the management of a company, without leave of the Court, for a period not exceeding five years (S. 217). A summary consisting of the front page of the Statement of Affairs, and the causes of its failure, to which is appended any remarks which the Official Receiver considers it necessary to make, is sent to all creditors and contributories. The preparation of a Statement of Affairs and similar documents is dealt with at the end of this chapter.

Meetings of Contributories and Creditors.—Separate meetings of the contributories and creditors of the company must be held within one month, or if a Special Manager has been appointed, within six weeks of the winding-up order (S. 185 and Rule 119). Seven days' notice of these meetings must be given by advertisement in the *Gazette* and a local paper, and by post to all creditors and contributories; and by post or personally to all those directors or officers required to attend Proxies are allowed for all meetings in a compulsory liquidation. The form of proxy used is similar to that employed in bankruptcy proceedings (see p. 417). Proxy forms may be general or special, and, in liquidations, they need no stamp (S. 281). A *General Proxy* may be given to any adult person, and the holder

may vote at any meeting. A *Special Proxy* may also be given to any adult person, but it is available only at a special meeting or its adjournment The forms are obtainable from the Official Receiver or Liquidator, and must be filled in by the creditor or an employee. They must be lodged with the Liquidator not later than four o'clock p.m on the day prior to the meeting at which they are to be used. But proxies intended for use at the first meeting of creditors or contributories, or at an adjournment thereof, must be lodged with the Official Receiver not later than the time specified in the notice convening the meeting, or adjourned meeting, which time must not be earlier than noon of the day but one before, nor later than noon of the day before the day of the meeting, unless the Court otherwise directs (Rule 152) A resolution passed at an adjourned meeting is treated as passed on the date of that and not the date of the original meeting (S. 287).

Chief Object of the Meetings.—The chief object of these meetings, over which the Official Receiver presides, is to determine whether application should be made to the Court (*a*) for the appointment of a Liquidator to act in place of the Official Receiver, and (*b*) for the appointment of a Committee of Inspection to act with the Liquidator. Resolutions at these meetings must be carried by a majority in number and value of those present personally or by proxy and voting on the resolution. The value of contributories is determined according to the number of votes conferred on each contributory by the regulations of the company. In the event of a difference of opinion between the two bodies, the Court will have regard to that body which is chiefly interested in the realisation of the estate, i.e. usually the creditors.

(*Form of Special Proxy.*)

RAYON D'OR, LIMITED.

I, *Richard Templeton*, of 378 *Finsbury Circus, E.C.*, in the County of *London*, being a contributory of *Rayon d'Or*, Limited, hereby appoint *George Sebus*, of 389 *Trinity Square, E C.*, as my proxy at the meeting of contributories to be held on the *23rd* day of *November*, 19. . . or any adjournment thereof to vote for the resolution Numbered 1 in the notice convening.

Dated this *9th* day of *November*, 19. .

RICHARD TEMPLETON.

Appointment of Liquidator.—A body corporate cannot be appointed to act as liquidator (S. 278). If a Liquidator is appointed at the meeting, the Official Receiver must send a copy of the order appointing him to the Board of Trade, who, as soon as the Liquidator has given security, must cause notice of the appointment to be gazetted. The appointment must also be advertised as the Court directs. The Liquidator becomes an officer of the Court, but he cannot act until he has notified his appointment to the Registrar of Companies and given such security as the Board of Trade may require. The bonds of recognised Guarantee Societies are accepted in this connection, the cost of which must be borne by the Liquidator personally and not charged against the estate. If the Board of

Trade is satisfied, it will issue a certificate to that effect for filing, and the Liquidator may then proceed to take possession of the assets of the company. The costs and disbursements of the Official Receiver must be paid, or guaranteed, before he will hand over any assets of which he may be in possession. If a Committee of Inspection of creditors and contributories has been appointed to act with the Liquidator, he will call an early meeting to consult with them as to the conduct of the liquidation and the realisation of the estate.

Committee of Inspection.—By S. 199, a Committee of Inspection shall consist of creditors and contributories of the company, or persons holding general powers of attorney from them, in such proportions as the creditors and contributories may agree, or, failing agreement, as the Court shall decide. The Committee must meet at least once a month, unless otherwise agreed. The Liquidator or any member of the Committee may call a meeting. The Committee may act by a majority of the members present, but a majority of the Committee must be present. Any member may resign, and, if any member becomes bankrupt, or compounds or arranges with his creditors, or is absent from five consecutive meetings without leave either of the other members for the creditors, or the contributories, as the case may be, his office becomes vacant. Any member may be removed by resolution at a meeting, as the case may require, of creditors or contributories, of which seven days' notice has been given stating the object of the meeting. On a vacancy occurring in the Committee, the Liquidator shall forthwith summon a meeting of creditors or contributories, as the case may require, to fill the vacancy, and the same or another creditor or contributory shall be appointed to fill the vacancy. The continuing members of the Committee, if not less than two, may act notwithstanding any vacancy in the Committee. If there is no Committee of Inspection, the Liquidator may apply to the Board of Trade for power to do such acts as would otherwise have required the sanction of the Committee. The Liquidator must advertise the appointment of the Committee in such manner as the Court directs.

List of Contributories.—When there is any uncalled capital, one of the first duties of the Liquidator is to settle the list of contributories (Rule 78). A contributory is a person who is "liable to contribute to the assets of the company in the event of its being wound up" (S. 158). In cases where the company's shares are fully paid, there are, of course, no contributories When liquidation arises out of insolvency, it is very unusual to find that any uncalled capital is available. If it appears to the Court that it will not be necessary to make calls on or adjust the rights of contributories, the Court may dispense with the settlement of the list of contributories (S. 203).

Two Classes of Contributories.—The registered shareholders of a company in Liquidation are termed the "*A*" *Contributories*; those persons who have been shareholders within twelve months immediately preceding the liquidation are termed "*B*" *Contributories.* "B" contributories are not liable for any debts

contracted after they ceased to be members of the company, and they are only liable for debts contracted while they were members of the company provided the existing members are unable to pay the contributions due from them (S 157) (*Brett's Case and Morris's Case* (1873), 8 Ch. D. 800). That is to say, the "B" contributory is only liable for the amount outstanding on the shares he formerly held to the extent to which the corresponding "A" contributory has failed to pay The "B" contributories cannot be called upon till the whole of the "A" list has been exhausted, and they are entitled to be satisfied that the contributions required from them are needed to discharge debts incurred whilst they were members of the company The primary object of instituting the "B" list was to prevent the transfer of shares not fully paid to "men of straw" immediately prior to liquidation in order to escape liability.

Settling the List of Contributories.—As soon as possible after his appointment the Liquidator should give written notice of his intention to settle the list of contributories to all those whom he proposes to include in the list (Rule 79). The notice should specify the time and place of settlement, the reason for including the addressee, the number of shares, the amount paid on them, and the balance due. The notice may provoke protests from some of the contributories, and, when he has considered these protests, the Liquidator will finally settle the lists, and notify the contributories of his decision. A contributory aggrieved by the inclusion of his name can apply to the Court within twenty-one days from the date of service of the notice, by means of an originating summons, to have the list rectified (Rule 82).

The Share Register affords *prima-facie* evidence whether a member is liable to be scheduled as a contributory, but it is open to any member to attend the settlement meeting and object to the inclusion of his name. To substantiate his objection to being included, a contributory must show that the allotment was irregular or that the conditions of his application for shares were unfulfilled, or that he withdrew his application within the statutory time, or that it was obtained by fraudulent misrepresentation, or else offer some other satisfactory reason

The winding-up rules relating to the list of contributories in a compulsory liquidation are not necessarily applicable to a voluntary liquidation, but it is wise, even in the latter case, to follow these rules.

In case of need the Liquidator may amend the list of contributories by the same procedure described as necessary for its compilation.

Calls.—If necessary, the payment of calls is enforced by means of a *Balance Order* issued by the Court. The Liquidator is not bound in any way by the terms on which the company's capital was originally issued, and he may call in any unpaid capital as expeditiously as he thinks desirable. Contributories, unless bankrupt, have no power to set off debts due to them by the company against outstanding calls (*in re Whitehouse & Co.* (1878), 9 Ch. D.

NOTE.—The Stamp must not be defaced by the Creditor.

Where the debt proved for exceeds £2 a Shilling Companies (Winding-up) Stamp must be affixed here, or a postal order for 1s. be sent to the Official Receiver, as otherwise the Proof cannot be admitted.

BANKRUPTCY OR POSTAGE STAMPS CANNOT BE ACCEPTED

29-11-12

Proof of Debt.

IN THE COURT OF

COMPANIES (WINDING UP). No. of 19

IN THE MATTER OF THE COMPANIES ACT, 1929,

AND

*IN THE MATTER OF

* *Insert full name of Company as given on the Notice of Meeting.*

I (a)

of

in the County of , make oath and say:

(b) That I am in the employ of the under-mentioned Creditor, and that I am duly authorised by to make this affidavit, and that it is within my own knowledge that the debt hereinafter deposed to was incurred and for the consideration stated, and that such debt, to the best of my knowledge and belief, still remains unpaid and unsatisfied.

(c) That I am duly authorised, under the seal of the Company hereinafter named, to make the proof of debt on its behalf.

1. That the above-named Company was, at the date of the Order for Winding-up the same, viz., the day of , 19 , and still is justly and truly indebted to (d)

in the sum of

Pounds, Shillings, and Pence for (e)

(a) Fill in full name, address, and occupation of deponent.

If proof made by Creditor strike out clauses (b) and (c).

If made by Clerk of Creditor strike out (c).

If by Clerk or Agent of Company strike out (b)

(d) Insert "*me* and to C.D. and E F, my copartners in trade," *if any, or, if by Clerk or Agent, insert name, address, and description of principal.*

NOTE—*In case of a firm the names of all the partners must be set out in full.*

Debt £	:	:	
Contra £	:	:	
£	:	:	

to these Directions.

You should attend carefully

NOTE THIS.

(*e*) *State consideration* [*as* Goods sold and delivered by me] [and my said partner] to the Company between the dates of [*or*, moneys advanced by me in respect of the under-mentioned Bill of Exchange] *or as the case may be.*

† Strike out the words not applicable.

(*f*) "My said partners or any of them" *or* "the above-named creditor" *as the case may be.*

(*g*) "My" *or* "our" *or* "their" *or* "his" *as the case may be*

(*h*) Here state the particulars of all securities held, and where the securities are on the property of the Company, assess the value of the same, and if any bills or other negotiable securities be held, specify them in the schedule.

N B—*Bills of Exchange or other Negotiable Securities must be produced before the proof can be admitted*

Admitted to vote for £ : : *this day of* , 19 .

Official Receiver or Liquidator.

Admitted to rank for Dividend for £ : : *this day of* , 19

Official Receiver or Liquidator.

as shown by the † {Account endorsed hereon / Account hereto annexed marked "A,"} for which sum or any part thereof I say that I have not nor hath (*f*) or any person by (*g*) order to my knowledge or belief for (*g*) use had or received any manner of satisfaction or security whatsoever, save and except the following (*h*)

Date	Drawer.	Acceptor.	Amount.	Due Date

Sworn at
in the County of
this day of 19 ,
Before me

Deponent's Signature,

The Proof cannot be admitted for Voting at the first Meeting unless it is properly completed and lodged with the Official Receiver before the time named in the Notice convening such Meeting.

NOTE —*If space not sufficient let the particulars be annexed, but where the particulars are on a separate sheet of paper, the same must be marked by the person before whom the Affidavit is sworn, thus :—*

IN THE MATTER OF......... ....

"This is the account marked 'A' referred to in the annexed Affidavit of ....

"sworn before me this .... day of .... 19...

" (Signed) ....

" Commissioner or Officer administering Oath."

PARTICULARS OF ACCOUNT REFERRED TO ON THE OTHER SIDE.

(Credit should be given for Contra Accounts.)

DATE	CONSIDERATION	AMOUNT.			REMARKS. The vouchers (if any) by which the Account can be substantiated should be set out here.
		£	s	d	

Deponent's Signature ....

Signature of Commissioner or Officer administering Oath } ....

595; *Hiram Maxim Lamp Company*, [1903] 1 Ch 70). Such debts must be proved against the estate in the ordinary way. Shareholders who have paid calls in advance, prior to liquidation, cannot be made to pay again, and, should a surplus result from the liquidation after the payment of creditors, they are entitled to repayment of such calls, with interest, prior to the distribution of the surplus amongst the remaining shareholders (*re Wakefield Rolling Stock Company*, [1892] 3 Ch. 165).

List of Creditors.—Another important duty following the Liquidator's appointment is the settlement of the list of creditors. All creditors must prove their debts in the prescribed form, which is shown at pp. 420–2. It will be seen that the form takes the shape of an affidavit, made by a creditor or his agent, verifying the debt. Proofs of debt must be lodged with the Liquidator, who will compare them with the books and records of the company, and must accept or reject them within twenty-eight days of receipt. In the event of rejection, he must give written notice to the creditor concerned, who may, if he disputes the decision, appeal to the Court within twenty-one days of receipt of the notice of rejection. On the first day of every month the Liquidator must file with the Registrar a certified list of proofs, whether admitted or rejected, received by him during the preceding month The Liquidator may call for vouchers or other documentary evidence in support of proofs of debt. In all cases the net amount of debts must be proved for, trade discounts to which the company was entitled having been deducted

Statute barred and gaming debts are not provable, nor debts founded on illegal consideration, or arising out of *ultra vires* contracts. When a contra account exists between a company and a creditor, the balance only, as at the date of the liquidation, is provable. Creditors proving in respect of Bills of Exchange or other negotiable instruments must produce them, and the Liquidator will mark them as having been produced, prior to admitting the proof of debt In certain cases interest may be proved for in addition to the debt, e.g. when the payment of interest is expressed or implied by a contract, by trade custom, or by statute.

Where transactions of a company have been *ultra vires*, the Liquidator is often presented with problems of considerable difficulty. A company which borrows without possessing borrowing powers, or in excess of its borrowing powers, cannot be sued by the person advancing the money, unless the money borrowed is used to pay off an existing lawful debt, or a lawful debt accrued subsequent to the borrowing, in which cases the lender is subrogated to the rights of the creditors paid off. In all other cases the transaction is a nullity, and no action of debt will lie The lender can enforce repayment to the extent that he can follow the money lent, i.e. identify it as still existing, either in the form of actual cash, or of investments, or of an increase in the property of the company. But that he is rarely able to do. This matter was discussed in, amongst other cases, *Sinclair* v. *Brougham*, [1914] App. Ca 398, arising out of the liquidation of the Birkbeck Building Society.

The Society had for many years carried on business as a bank without having power to do so. The Balance Sheet prior to the winding up disclosed a liability to shareholders of £1,053,728, and to depositors of £10,784,323. The assets aggregated £11,966,433, and clearly therefore in the main represented deposits made by the banking customers, which were in effect *ultra vires* borrowings. The funds were inextricably mixed, and it was impossible to trace which assets belonged to the Bank and which to the Building Society. In these circumstances it was held by the House of Lords that the shareholders and the depositors were entitled to rank for dividend in proportion to the amounts credited to them in the books of the Society at the commencement of the winding-up.

In the recent case of *re Regent Finance and Guarantee Corporation Ltd.* ([1930] 169 L.T. 304), A., on the introduction of the company, inspected an omnibus at B's depot with a view to buying it, and was told that it could be delivered to him on his coming to terms with the company. On 13th December, A agreed with the company that the omnibus should be dispatched to him on payment of £600. He sent the company a cheque for that amount This cheque was cleared the same day, when the company's bank balance was only £49. The company handed to B a banker's draft for £400 in part payment for the omnibus. The price to be paid for the omnibus was, in fact, £500, and the draft for £400 could not have been met if A's cheque for £600 had not been cleared. The omnibus was never delivered to A. On the same day, 13th December, unknown to either A or B, a compulsory winding-up order was made against the company, and eventually B returned the £400 to the Liquidator. It was held that the Liquidator must return the £400, less £49, to A, since it would be dishonest for the company to keep it. This decision followed the bankruptcy case of *re Thelluson, ex parte Abdy*, (35 T.L.R. 732).

Distributing the Assets.—When the assets have been realised, and the expenses incurred in realising them and the secured creditors have been paid, the Liquidator must apply any funds remaining to the payment in the following order of:—

(*a*) The taxed costs of the petition.

(*b*) The special manager's remuneration

(*c*) The costs and expenses of any person who makes, or concurs in making, the Company's Statement of Affairs.

(*d*) The taxed costs of any shorthand writer appointed to take an examination (unless appointed at the instance of the Official Receiver, in which case the cost of the shorthand notes is an expense of the Official Receiver in realising the assets).

(*e*) The Liquidator's necessary disbursements.

(*f*) The costs of any person properly employed by the Liquidator.

(*g*) The Liquidator's remuneration.

(*h*) The expenses of the Committee of Inspection, subject to the approval of the Board of Trade.

(*i*) The preferential debts.

(*j*) The unsecured creditors. If any surplus remains, it must be distributed, *pari passu*, among the contributories according to their rights and interests.

Distribution of Dividend.—When sufficient funds are available, the Liquidator will proceed to declare a dividend. There is no

statutory time within which such distributions must take place, but not more than two months before distributing a dividend the Liquidator must send notice to the Board of Trade of his intention to do so, in order that the fact may be advertised in the *Gazette*. A similar notice must be sent to all creditors whose names appear in the list of creditors but who have not proved their debts, and the time limit within which debts must be proved (which must not be less than fourteen days from the date of the notice) must form part of the notice The Liquidator must adjudicate upon any proofs sent in within fourteen days of the last date fixed for sending in claims.

Dividends are usually made payable on a stated day, between stated hours, at the Liquidator's office, or, alternatively, they are posted to creditors at their written request and at their risk. The Liquidator must obtain the cheques for the payment of the dividend from the Board of Trade, and he should supply the Board with a list of the creditors and their dividends at least ten days before he requires the cheques. The Board of Trade will either make an order for payment to the Liquidator of the sum required by him or supply the Liquidator with cheques in favour of the creditors whose dividends exceed two pounds, and money orders for smaller sums.

Books and Accounts.—The duties of the Liquidator with reference to accountancy matters are regulated by SS. 193 and 195, and Rules 169, 170, and 172 to 179. He must keep a Cash Book (Rule 170) and a Record Book (Rule 169), and, if the business is continued, a Trading Account (see p. 426), the weekly totals of which, under Rule 174, are carried to the Liquidator's Cash Book, a specimen of which is shown appended.

Cash Book.—Prior to the appointment of the Liquidator this book is kept by the Official Receiver, and is handed over by him on payment of his fees and disbursements. All transactions relating to the liquidation must be recorded in this book in the manner shown in the accompanying example. It will be noted that payments to preferential creditors must be shown separately. In case of need the usual trading books will be kept, the totals only of the receipts and payments being incorporated weekly in the Cash Book. Vouchers for all payments must be obtained where possible.

Record Book—This book is used much in the same way as the Record Book is used in bankruptcy proceedings (see p. 627). It serves the combined purpose of a Minute Book and a Diary. Minutes of proceedings, resolutions passed at meetings, copies of notices, or of any other documents that will serve to present an intelligible history of the proceedings should be pasted in the book, but the Liquidator is under no obligation to record confidential documents, such as counsel's opinions.

Banking Account.—All moneys received by the Liquidator must be paid into the *Companies Liquidation Account* kept at the Bank of England (SS. 194 and 285 and Rule 196). In no case may he pay the money into his own personal account. On the application of the

No. of Company: *995.*

No. 94.

LIQUIDATOR'S TRADING ACCOUNT.

UNDER SECTION 284 COMPANIES ACT, 1929.

Insert here the name of the Company. *RAYON D'OR, LIMITED.*

Insert here the name of the Liquidator. *Robert Easlea.*

The Liquidator of the above-named Company in account with the Estate.

DR.		RECEIPTS.	£	s	d			PAYMENTS.	£	s.	d. CR.
19..						*19..*					
March	*1*	*B. Banks & Co Goods sold*	*96*	*4*	*1*	*March*	*1*	*Incidental Expenses*	*5*	*1*	*2*
,,	*2*	*R. Roberts. Goods sold*	*21*	*5*	*6*	,,	*3*	*Wages*	*56*	*4*	*1*
,,	*5*	*Cash Sales for week*	*10*	*19*	*6*	,,	*4*	*Office Salaries*	*12*	*5*	*6*
,,	*7*	*Charles Coster. Goods sold* . .	*5*	*6*	*2*	,,	*7*	*George Jones. Materials purchased*	*94*	*1*	*2*
,,	*10*	*Simon Flint. Rent of part of office for month*	*10*	*0*	*0*	,,	*9*	*Petty Cash*	*5*	*0*	*0*
,,	*11*	*George Ganger. Goods sold*	*59*	*4*	*6*	,,	*12*	*Travelling Expenses*	*2*	*10*	*6*
						,,	*14*	*Peter Blair. Goods purchased* ..	*16*	*8*	*4*
						,,	*16*	*Great Western Railway. Carriage* ..	*6*	*4*	*2*
		Etc. Etc.						*Etc. Etc.*			

(Date) .... Liquidator.

This Account is required in duplicate in addition to Form No. 92.

Committee of Inspection, or of the Official Receiver if there is no Committee, a local banking account will be sanctioned, provided it can be shown that such an account will facilitate the conduct of the business, or secure advances more easily, or that the estate would otherwise benefit thereby. The form of application for a local banking account is given in Rule 168. If a local account is sanctioned, all moneys must be paid into the account, and not into the Liquidator's personal account. "Order" cheques only must be drawn on the local account. They must bear the name of the company, and must be signed by at least one member of the Committee, in addition to the Liquidator. The Board of Trade may close this account at any time if it considers it to be unnecessary.

Payments In.—When the account is kept at the Bank of England, the payments into the Companies Liquidation Account must be made at such time as the Board of Trade, with the concurrence of the Treasury, direct, which, in practice is normally at least once a week, and be paid in *gross*. Breach of this rule renders the Liquidator liable to heavy penalties. By S. 194, s.-s. (3) of the Act of 1929, a Liquidator is absolutely prohibited from paying any sums received by him as Liquidator into his private banking account. But by S. 194, s.-s. (1) the Board of Trade may, on the application of the Committee of Inspection, authorise the Liquidator to make his payments into and out of such other bank as the Committee may select, and in that case the payments shall be made in the manner prescribed. All moneys received in excess of the limit imposed by the Board of Trade for the special bank account must be paid into the Companies Liquidation Account. Remittances must be accompanied by a *Receivable Order* (see p. 428), obtainable from the Controller of the Companies Department, Great George Street, London, S.W. 1. This form, with the remittance, must be sent to the Agent of the Bank of England, Law Courts Branch, London, W.C. 2. The counterpart of the order (see p. 429) must be filled in and forwarded by the same post to the Accountant General, Finance Department, Board of Trade, Great George Street, London, S.W. 1. Current Bills of Exchange must be paid in direct to the Companies Liquidation Account.

Payments Out.—When the Liquidator desires to make payments on behalf of the estate, he must apply to the Board of Trade in the prescribed form, giving particulars of the cheques he requires, and in due course the Board will send the cheques to him for transmission to the payees. If Joint Liquidators are acting the necessary application may be made, and attested, by one Liquidator, providing his co-Liquidator signs as concurring. If that course is desirable, the Board will make a cheque payable direct to the Liquidator. The Board will also, on receipt of particulars, send cheques to the Liquidator in repayment of disbursements made by him out of his own moneys on behalf of the estate. The Board makes these payments at the request of the Liquidator, subject to audit, and takes no responsibility for them.

Receipts Paid in Gross.—As already stated, all receipts must

(In Compulsory Liquidation.)

TO BE ENCLOSED WITH REMITTANCE TO BANK OF ENGLAND.

COMPANIES ACT, 1929.

RECEIVABLE ORDER

Name of Liquidator *Mr.* ....
Full Postal Address ....
....
....

	Amounts.		
Cheques drawn on			
Total of Cheques			
Bank of England Notes			
Other Notes.			
Gold . .			
Total			

.... 19..

SIR,

The Liquidator whose Name and Address are given above, is authorised to pay to the Credit of the Companies Liquidation Account the sum of .... Pounds, ... shillings and ..... . pence, the particulars of which are stated below, and I am to request you to receive the same accordingly.

I am, Sir,

Your obedient Servant,

H. P. HAMILTON.

The Agent of the Bank of England,
Law Courts Branch,
Temple Bar,
London, W.C 2.

Letters addressed to the Bank of England must be prepaid.

Court	No of Case	Companies on account of which remittance is made.	Amount.

BOARD OF TRADE.

I hereby certify that the above-mentioned sum has been credited to the Companies Liquidation Account at the Bank of England.

....{ *Assistant Secretary, Board of Trade*

.... 19..

(Counterpart Receivable Order Compulsory Liquidation.)

TO BE POSTED UNSEALED.

[C.D. 7.]

COMPANIES ACT, 1929.

.... 19...

SIR,

	Amounts.		
*Cheques drawn on .. .			
Total of Cheques			
Bank of England Notes			
Other Notes .			
Gold			
Total			

* Distinguishing between your own cheques and those received on account of the Company but not realised by you.

I have to acquaint you that I have remitted to the Bank of England (Law Courts Branch) the sum of .... Pounds, ... shillings and .... pence (as detailed in the margin) to be placed to the Credit of the Companies Liquidation Account.

Particulars of the Companies and respective amounts to be credited are stated below.

I am, Sir,

Your obedient Servant,

(Signature) ....

(Address in full) . ...

....

Liquidator.

The Assistant Secretary for Finance,

Board of Trade, Great George Street, London, S.W. 1.

Court	No of Case	Companies on account of which remittance is made.	Board of Trade Ledger Folio.	Amount		
		Total remittance, as stated above ..				

It is particularly requested that remittances may be made direct to the Bank of England, Law Courts Branch, London, by cheque crossed "Bank of England, Credit of Companies Liquidation Account."

(Summary of Liquidator's Accounts)

IN THE HIGH COURT OF JUSTICE.

IN THE MATTER OF THE COMPANIES ACT, 1929.

AND

IN THE MATTER OF.............................. ..

SUMMARY OF LIQUIDATOR'S ACCOUNTS,

FROM TO

Issued by the Board of Trade under the provisions of S. 195 of the Companies Act, 1929.

CR.	Receipts. £	s.	d.		Payments. £	s.	d
To Balance				By Balance			
,, Receipts, viz.:—				,, Board of Trade and Court Fees			
(a) Cash at Bankers				,, Law Costs of Petition, including costs of any person appearing in the petition whose costs are allowed			
(b) Cash in hand				,, Costs of Solicitor to Liquidator			
(c) Stock-in-Trade				,, Other Law Costs			
(d) Machinery, etc				,, Special Manager's charges			
(e) Trade Fixtures, etc.				,, Allowance for preparing Statement of Affairs			
(f) Investments in Shares, etc				,, Fees of Official Receiver as Provisional Liquidator			
(g) Loans on Mortgage				,, Charges of Provisional Liquidator, other than Official Receiver			
(h) Other property, viz. —				,, Remuneration of Liquidator on Account			
,, Book debts—good				,, Auctioneer's and Valuer's charges			
,, Book debts—doubtful and bad				,, Shorthand Writer's charges			
,, Bills of Exchange				,, Other charges			
,, Surplus from Securities				,, Costs of Possession			
,, Receipts per Trading Accounts				,, Costs of Notices in *Gazette* and local papers			
,, Calls due at date of Winding-up Order				,, Incidental outlay			
,, Calls made by Liquidator				Total costs and charges			

Less—	£	s.	d
Payments to Execution and other Secured Creditors			
Payments per Trading Account			

	£	s	d
Debenture Holders			
Preferential Creditors			
Unsecured Creditors dividend of in the £ on			
Return to Contributories at the rate of per Share			
Balance			
£			

DR.

Creditors and Contributories can obtain any further information on application to the Liquidator.

....19..

.... *Liquidator.*

IN THE .... COURT OF ....

IN THE MATTER OF THE COMPANIES (CONSOLIDATION) ACT, 1908.

IN THE MATTER OF............................

DR. STATEMENT SHOWING POSITION OF COMPANY AT DATE OF APPLICATION FOR RELEASE. CR

	Estimated to produce per Company's Statement of Affairs.	Receipts.			Payments.
	£ s. d	£ s d.	By Board of Trade and Court Fees (including stationery, printing, and postages in respect of contributories, creditors, and debtors, and fee for audit)		£ s. d.
To total receipts from date of Winding-up Order, viz :— (State particulars under the several headings specified in the Statement of Affairs)				£ s d	
,, Receipts per Trading Account			,, Law Costs of Petition		
,, Other receipts			,, Law Costs of Solicitor to Liquidator ..		
			,, Other Law Costs		
Total			,, Liquidator's remuneration, viz —	£ s d	
			Per cent on £ assets realised		
			Per cent on £ assets distributed in dividend		
Less—	£ s. d				
Payments to redeem Securities			,, Shorthand Writer's charges		
Costs of execution			,, Special Manager's charges		
Payments per Trading Account			,, Person appointed to assist in preparation of Statement of Affairs		
Net realisations	£		,, Auctioneer's charges as taxed		
Amounts received from Calls on Contributories made in the Winding-up			,, Other taxed costs		
			,, Costs of possession and maintenance of estate		
			,, Costs of notices in *Gazette* and local papers		
			,, Incidental outlay		
			Total costs and charges	£	
			Creditors, viz .—	£ s d	
			(*a*) Preferential		
			(*b*) Unsecured: Dividend of s d. in the £ on £		
			The estimate of amount expected to rank for dividend was £		
			Amount returned to Contributories ..		
			Balance		
	£		(*a*) State number of creditors	£	

Assets not yet realised, including calls estimated to produce £ .

(Add here any special remarks the Liquidator thinks desirable.)

Creditors can obtain any further information by inquiry at the office of the Liquidator.

(Signature of Liquidator) ....

(Address) ....

Dated this .... day of ...., 19...

be paid in *gross* When, e.g., property is sold by auction, the gross proceeds must be paid in, and a cheque for the auctioneer's commission and expenses must be obtained on the certificate of the Taxing Master. Realisations must always be entered in the Cash Book gross, and the expenses be set out as payments on the credit side of the Cash Book. Fees and charges incurred for professional services must be taxed prior to payment.

Audit.—The Liquidator's books and records are open to inspection by creditors and contributories, or their agents, and they are subject to audit. The Cash Book must be audited at least every three months by the Committee of Inspection (Rule 172). If a Trading Account is kept, it must be audited at least once a month, and verified by affidavit and certified by the Committee (Rule 174).

Duplicate copies of the Cash Book must be sent every six months to the Board of Trade for audit (S. 195 and Rule 173). The copies must be verified by statutory declaration and accompanied by the relative vouchers: allocaturs (i.e. certificates of payment issued by the Taxing Master); the audit certificates of the Committee of Inspection; the Record Book; the local Pass Book (if any), with bankers' certificate as to the balance; the Trading Account (if any), and the vouchers and affidavit verifying it; a list of dividends paid (if any); special manager's account (if any), with statutory declaration and vouchers; and, finally, a report in the prescribed form. The first return under this rule must be accompanied by a summary of the Statement of Affairs, showing, in red ink, the assets realised, and giving reasons why the remaining assets are unrealised. The audit fees charged by the Board of Trade are on the following scale.—

On the first £5,000	1 %
On the next £95,000	$\frac{1}{2}$ %
On the next £400,000	$\frac{1}{4}$ %
On the next £500,000	$\frac{1}{8}$ %
On the next £1,000,000	$\frac{1}{16}$ %

An order on the Companies Liquidation Account for the audit fees due must accompany the books and papers. When the account has been audited, a certified copy is filed by the Board and a similar copy with the Court. Either copy is open to inspection by any person interested. A summary of the account is also sent to every creditor and contributory (S. 195) (see p. 430). When no transactions have taken place since the last audit, an *Affidavit of No Receipts and Payments* in the prescribed form must be forwarded to the Board of Trade (Rule 177).

Remuneration and Status of Liquidator.—The remuneration of the Liquidator is fixed by the Committee of Inspection, unless the Court orders otherwise, and takes the form of a percentage (*a*) on the amount realised, and (*b*) on the dividends distributed (Rule 157). If there is no Committee of Inspection, the percentage scale of fees payable to the Official Receiver is applicable. The Liquidator is an officer of the Court. He may be removed by the Court, good cause being shown, otherwise he is irremovable.

Final Accounts and Release of Liquidator.—If the Liquidator intends to apply (Form 99, Rule 202) to the Board of Trade for his release, he must send notice of his intention to all the creditors who have proved their debts, and to the contributories (Form 98, Rule 202). The notice must be accompanied by a summary of all his receipts and payments as Liquidator (Rule 202), together with his accounts, notwithstanding that six months may not have elapsed since the last account was filed. A specimen of the summary is shown at p. 431. A report is made by the Board of Trade on the Liquidator's account (S. 197). Creditors or contributories may lodge objections to the Liquidator's release, and any such will be duly considered prior to issuing the release. Upon the order of release being granted, the Liquidator must send the prescribed notice to the *London Gazette*. If the Board of Trade refuses to grant a release order, the Liquidator can appeal to the High Court within twenty-one days of the refusal. An order of release relieves the Liquidator of all liability for his acts during the winding up, unless fraud can be proved against him. When the notice of release is gazetted, the books and papers relative to the liquidation must be handed to the Official Receiver. The affairs of the company being then completely wound up, the Court makes an order for dissolution, and the company is then dissolved. The Liquidator must report the order to the Registrar of Companies within fourteen days (S. 221). After five years from the date of dissolution the company and the Liquidator are relieved from all responsibility for non-production of the books and papers of the company (S. 283). Within two years from the date of dissolution, however, the Court may declare the dissolution void and proceedings may be taken as if the company were not dissolved (S. 294).

LIQUIDATION UNDER SUPERVISION.

S. 256 of the Act of 1929 empowers the Court, upon petition, to order that a voluntary liquidation shall be continued subject to such supervision as the Court may impose. A supervision order cannot be made unless proceedings for voluntary liquidation have previously been initiated, and, in making it, the Court will take into consideration the wishes of the creditors and contributories. If the petition is granted, the order must be advertised in the *Gazette* within twelve days of its issue. The extent of the supervision imposed is determined by a consideration of each individual case. The liquidation is considered to begin on the day when the resolution for voluntary liquidation was passed. Less than 1 % of the total liquidations are carried out by this method.

Liquidation under supervision usually arises out of a petition for compulsory liquidation which has been refused, because the interests of some of the parties are in conflict, the Court granting in its place a supervision order. The order may confirm the voluntary Liquidator in his position, or appoint another to act with him, or in his stead. Unless good reason is shown for a

change, the voluntary Liquidator is continued in office. Sometimes a Committee of Inspection is appointed to act with him His powers are those of a voluntary Liquidator, subject to the degree of control imposed by the Court. The Court generally stipulates that he shall give security, that all costs shall be taxed, and that periodical—usually three-monthly—reports of the progress of the liquidation shall be filed with the Registrar. Sometimes where a members' voluntary winding up is concerned, the stipulation is made that a committee of members, or occasionally of creditors (*In re W Watson & Son, Ltd.*, [1891] 2 Ch. 55), shall be appointed to act with the Liquidator, and, if so, the order will define the committee's authority, since the ordinary rules do not apply in these cases In a creditor's voluntary winding up under supervision, the provisions regarding the Committee of Inspection are practically the same as if there was a compulsory winding-up order.

The provisions as to the presentation of a Statement of Affairs, the appointment of a Committee of Inspection, Report of the Official Receiver; meetings of creditors and contributories; Board of Trade audit; payment of moneys into bank, release of Liquidator, public examination of directors; books and accounts (except when the winding up is not completed within one year of its commencement [S. 260]) applicable to a compulsory liquidation do not apply to a liquidation under supervision, which, in effect, is merely the continuation of a voluntary liquidation under the supervision of the Court. The chief difference between a voluntary and a supervisory liquidation is that, in the latter, the grant of the order automatically stops all executions and actions at law. In addition to this, the costs, in a supervision winding up, are taxed as in a compulsory winding up

From the accountancy point of view no points arise in connection with this method of liquidation that are not dealt with under the heading "Voluntary Liquidation," except that the Liquidator's remuneration is fixed by the Court.

The Liquidator may employ whatever books of account he pleases, and if the liquidation is completed within twelve months he can present his final account in any form he pleases, but if the proceedings are prolonged beyond twelve months, then the provisions of S. 284 and Rule 194 (see p. 444) apply also to liquidations under supervision. Apart from such directions as the Court may issue in special cases, the forms of account used in voluntary liquidation are employed also in supervisory liquidation, the only difference being that the Liquidator under supervision must file with the Registrar, every three months, a report on the progress made in the realisation and any other matters of importance. The Court may, of course, at any time substitute a compulsory for a supervisory order if it is satisfied that the latter is not working efficiently; in that case the date of the passing of the resolution for voluntary winding up is still the date of the commencement of the winding up, and not the date of the supervision order. Unless the Court, on proof of fraud or mistake, thinks fit otherwise

to direct, all proceedings taken in the voluntary winding up shall be deemed to have been validly taken (S. 175).

When the estate has been realised and distributed, the final meeting is held, and the company dissolved as in the case of a voluntary liquidation. The books of the company are disposed of as directed by the Court.

VOLUNTARY LIQUIDATION.

We have seen that the Liquidator's freedom of action in compulsory liquidation is very much restricted. In a Voluntary Liquidation, the Liquidator is the agent of the company, and he and the company largely control the proceedings Voluntary winding-up proceedings do not stay executions, distresses, or actions pending against the company as is the case in compulsory proceedings, but the Liquidator may apply to the Court to stay such proceedings, or the protection of a Supervision Order may be sought for the purpose

When a Company may be Voluntarily Wound Up.—By S 225 of the Act of 1929 a company may be wound up voluntarily—

(a) When the period, if any, fixed by the Articles of Association for the duration of the company expires, or the event, if any, occurs, on the occurrence of which the Articles provide that the company is to be dissolved and the company in general meeting has passed a resolution requiring the company to be wound up voluntarily.

These conditions are not common, but they occur when companies are formed for a temporary purpose, e g an exhibition, or theatrical tour, or to exploit a mine or other property of a wasting nature. An ordinary resolution is then sufficient.

(b) If the company resolves by special resolution that the company be wound up voluntarily.

This is commonly done when amalgamation, absorption, reconstruction or rearrangement of capital is contemplated.

(c) If the company resolves by extraordinary resolution to the effect that it cannot by reason of its liabilities continue its business and that it is advisable to wind up.

This condition applies only to insolvency, the cause most frequently responsible for liquidation proceedings, and in such cases the notice convening the meeting must state definitely that the company cannot continue owing to its liabilities, and that a winding-up resolution is to be submitted for that reason.

Voluntary liquidation is the cheapest and speediest method of winding up a company. More than 90 % of the total liquidations follow this course.

Declaration of Solvency.—Where it is proposed to wind up a company voluntarily, the directors of the company or, if the company has more than two directors, a majority of the directors may, at a board meeting held before the date on which the notices of the meeting at which the winding-up resolution is to be proposed are sent out, make a Statutory Declaration (on Form 39B) to the effect that they have made a full inquiry into the affairs of the company, and that, having so done, they have formed the opinion

that the company will be able to pay its debts in full within a period, not exceeding twelve months, from the commencement of the winding up

This declaration has no effect unless it is delivered to the Registrar of Companies before the date of sending out the notices calling the meeting

If the declaration has been made and delivered as above, the winding up will be a "Member's Voluntary Winding Up," otherwise it will be a "Creditors' Voluntary Winding Up" (S. 230).

The Winding-up Resolution.—When the directors have reached the conclusion that the company cannot continue because of its inability to meet its liabilities, they instruct the secretary to call a meeting of the shareholders, for the purpose of passing an extraordinary resolution to wind up, and a meeting of the creditors (see p. 437). In all other cases a special resolution is necessary for winding up. Specimens of an extraordinary and a special resolution are given below. The Liquidator may be, and usually is, appointed at the same meeting (but see p. 438 as to the control by the creditors in a creditors' voluntary winding up). His appointment may form part of the main resolution, but usually it is the subject of a separate resolution, which needs only an ordinary majority to carry it. No notice of the name of the proposed Liquidator need be given The Voluntary Liquidator is not obliged to provide security unless the terms of his appointment require it. The liquidation proceedings date from the day when the resolution for voluntary winding up is passed (S. 227).

Filing the Resolution.—After the winding-up resolution, whether ordinary, extraordinary or special, has been passed, a printed copy of it must be filed with the Registrar at Somerset House (S 118). The copy filed should bear the signature of the chairman of the meeting by way of verification, and a copy must also be advertised in the *London*, or *Edinburgh Gazette* within seven days (S. 226). The copy sent for insertion in the *Gazette* should bear the signature of a practising solicitor Notice of the appointment of the Liquidator must be filed in the prescribed form with the Registrar within twenty-one days of the appointment (S. 250).

THE COMPANIES ACT, 1929.

EXTRAORDINARY RESOLUTION

OF THE

RAYON D'OR, LIMITED.

PASSED *July 30*, 19...

At an EXTRAORDINARY GENERAL MEETING of the Members of the said Company, duly convened and held at *962 Finsbury Circus, in the City of London*, on the *30th* day of *July*, 19.., the following EXTRAORDINARY RESOLUTION was duly passed:—

"That it has been proved to the satisfaction of the Company that this Company cannot by reason of its liabilities continue its business, and that it is desirable that it be wound up voluntarily; and that the Company be wound up accordingly

"That *Robert Easlea* of *961 Finsbury Circus, London, E.C., Chartered Accountant,* be and he is hereby appointed the Liquidator of the Company."

GEORGE McARTHUR,
Secretary

SPECIAL RESOLUTION

SOURCE D'OR, LIMITED.

(Incorporated under the Companies Act, 1929.)

SPECIAL RESOLUTION

At an Extraordinary General Meeting of the members of *Source d'Or, Limited,* duly convened and held at *Spencer House, South Place, in the City of London,* on the *15th day of February, 19..*, the following resolutions were duly passed as **Special Resolutions,** namely:—

(*1*) That the Company be wound up voluntarily

(*2*) That *Robert Easlea, of 961 Finsbury Circus, in the City of London, Chartered Accountant,* be and is hereby appointed Liquidator of the Company for the purposes of such winding up.

A. B. MOORE,
Chairman

Members' Voluntary Winding Up.—If the liquidation continues for more than one year, the Liquidator must call a general meeting of the company at the end of the first year from the commencement, and of each subsequent year, and lay before the company an account of his acts and dealings and of the conduct of the winding up during the preceding year (S 235). He must also make up an account of the winding up as soon as the affairs of the company are fully wound up, and call a general meeting to consider that account. This meeting must be called by advertisement in the *Gazette* at least one month before the meeting. Within one week after the meeting, the Liquidator must send to the Registrar of Companies a copy of the account and a return of the holding of the meeting and its date. If a quorum was not present at the meeting, the Liquidator must make a return to that effect. Three months from the date of the registration of the return the company is deemed to be dissolved, but the Liquidator or any person who appears to the Court to be interested may apply to the Court for an order deferring the date at which dissolution is to take effect. An office copy of any such order must be delivered to the Registrar by the applicant within seven days (S 236).

It will be observed that the creditors have no control whatever over a members' voluntary winding up. Their only mode of action is therefore to petition for either a supervision on a compulsory winding-up order.

Creditors' Voluntary Winding Up.—The company must cause a meeting of its creditors to be summoned for the same day, or the day next following the day, on which the meeting of the company is to be held for the proposal of the winding-up resolution. Notices must be sent to the creditors simultaneously with the notices to members. Notice of the creditors' meeting must also be advertised once in the *Gazette* and once at least in two local newspapers (S. 238).

A full statement of the company's affairs, and a list of creditors and the estimated amount of their claims, must be laid before this meeting of creditors. The directors must appoint one of themselves to act as chairman of the meeting, and such appointee must attend and preside thereat.

The creditors and the company at their respective meetings may nominate a person to be Liquidator. If they nominate different persons, the creditors' nominee shall act. If the creditors fail to nominate, then the company's nominee shall act. But if different persons are nominated, any director, member, or creditor may, within seven days of the nomination, apply to the Court for an order either directing that the company's nominee shall be Liquidator instead of or jointly with the person nominated by the creditors, or appointing some other person to be Liquidator instead of the creditors' nominee (S. 239)

Committee of Inspection.—The creditors' meeting may, if they think fit, appoint a Committee of Inspection of not more than five persons. If such a committee is appointed, the company in general meeting may appoint such number of persons as they think fit to act as members of the committee not exceeding five in number. But the creditors may resolve that all or any of the company's appointees ought not to be members of the committee, in which case those persons cannot act unless the Court so directs; the Court may appoint substitutes (S. 240).

Statement of Affairs.—There is no statutory obligation to prepare a statement of affairs in a Members' Voluntary Liquidation, but, in practice, it is usual to present a financial statement to the meeting. An actual statement of this description is shown at p. 440. As has been seen, such a statement is required to be submitted to the creditors in a Creditors' Voluntary Winding Up.

Taking Possession of the Assets.—One of the first duties of the Liquidator is to take possession of the company's assets. The banking account should be transferred into the name of the Liquidator. If the banker demurs to this step, a cheque should be drawn for the amount of the balance and handed to the Liquidator, who will open an account in his own name. All the policies of insurance held by the company—fire, employers' liability, burglary, or third-party risks—should be endorsed over to the Liquidator Notice of the Liquidator's appointment should be sent to any tenants the company may have; and notice must be given to all the company's servants, since Voluntary Liquidation (differing from a compulsory winding up) does not automatically determine their agreements (*Midland Counties Bank* v. *Attwood*, [1905] 1 Ch. 357).

If the Liquidator considers it inadvisable to continue the business, he will take speedy steps for the disposal of the property. He will vacate the premises owned or rented by the company, and, if rented, tell the landlord to proceed against the estate for damages under the lease. He will probably remove the company's books to his own office, and will give notice to the Postmaster-General and instructions for the redirection of the company's letters.

Liquidation terminates the public right to inspect the company's books, and, also, the right to transfer shares, except as sanctioned by the Liquidator. All pending contracts should be carefully examined, and, if sub-contracts cannot be arranged on profitable terms, arrangements should be made to cancel them Collection of the book debts should be taken in hand immediately, a circular requesting payment being sent to every debtor on the company's books. Every invoice, order for goods or business letter issued by or on behalf of the company or its Liquidator, being a document on which the name of the company appears, must contain a statement that the company is being wound up (S. 280). (This applies to all modes of liquidation.) The Liquidator is given powers of disclaimer similar to those possessed by a Trustee in Bankruptcy, but he must in every instance obtain the leave of the Court (S 267).

Settling the List of Creditors.—The settlement of the list of creditors entitled to dividend is, sometimes, one of the Liquidator's most difficult tasks. It is not customary in a Voluntary Liquidation to demand formal proof of debt from creditors, unless, according to the company's books and records, the claim appears to be invalid. As soon as is expedient after his appointment the Liquidator should advertise in the *Gazette* in the following form —

IN THE MATTER OF THE COMPANIES ACT, 1929.

AND

IN THE MATTER OF RAYON D'OR, LIMITED.

Notice is hereby given that the creditors of the above-named Company are required, on or before the 10th day of March, 19. , to send their names and addresses and particulars of their debts and claims to the undersigned, Richard Checks, of 962 Finsbury Circus, in the City of London, Chartered Accountant; and, if so required by notice in writing from the said Liquidator, are to come in and prove their said debts or claims at such time and place as shall be specified in such notice, or in default thereof, they will be excluded from the benefit of any distribution made before such debts are proved. Dated this 10th day of February, 19...

RICHARD CHECKS,
Liquidator.

A similar notice is sent to each known creditor or claimant If any creditor's claim is rejected and he feels aggrieved at the rejection, he may apply to the Court for redress, or he may call upon the Liquidator to state in writing his objection to the claim. Creditors must prove their debts at their own expense All debts must be proved for "net," any discount to which the company was entitled being deducted. A form of proof of debt is shown at p. 420.

All debts, whether presently due, or payable at some future date, or upon the happening of some contingency are admitted to proof against the company. Debts subject to a contingency, or which are of indeterminable value, must be estimated as justly as possible (S 261). Future calls in respect of shares held in another company afford an illustration of a contingent liability that may form the subject-matter of a proof of debt.

Liabilities—Order of Discharge.—Debts must be satisfied in

BLANKS, LIMITED.

(In Liquidation.)

STATEMENT OF AFFAIRS, JULY 31, 19...

	£	s	d	£	s	d
Unsecured Trade Creditors				19,348	16	2
Fully Secured Creditors—						
London County and Yorkshire Bank, Ltd	2,755	11	9			
Less Estimated value of Security ..	4,000	0	0			
Balance *per contra*	1,244	8	3			
Contingent Liabilities—						
Leases of Workshops, Offices, etc.						
Uncompleted Contracts						
Preferential Creditors for Rent, Wages, etc., deducted *per contra*	681	17	0			
				£19,348	16	2

	£	s	d	£	s.	d.
Cash at Bankers'				664	13	2
Sundry Debtors	3,179	0	9			
Estimated to realise				1,865	16	3
Balances outstanding on Contracts after allowing for estimated cost of completion ..				4,752	7	4
Stock-in-Trade	2,300	12	2			
Estimated to realise				1,725	9	2
Machinery, Horses, Carts and General Plant	2,150	3	0			
Estimated to realise				1,612	12	3
Leasehold Shops, King's Road, Poplar held by fully secured Creditors	4,000	0	0			
Leasehold House, Sutton				100	0	0
Surplus from Securities				1,244	8	3
				11,965	6	5
Less Preferential Creditors *per contra*				681	17	0
				11,283	9	5
Deficiency as regards Creditors				8,065	6	9
				£19,348	16	2

prescribed order, and the funds realised by the Liquidator must be applied.—

First, in paying the costs of the liquidation, including the Liquidator's remuneration (S. 254). [The Liquidator is thus in a better position than the Liquidator in a winding up by the Court.]

Secondly, in payment of the preferential debts.

Thirdly, in payment of the unsecured creditors.

Fourthly, in the repayment, so far as any surplus will permit, of the share capital, according to the rights and interests of the members.

So far as the author's experience goes, the last stage is, unfortunately, rarely reached in liquidation proceedings, except where the proceedings are merely part of a reorganisation or amalgamation of a sound concern. The first heading comprises Government fees and fees for legal and other professional services. The Liquidator's remuneration is fixed in a Members' Voluntary Winding Up by the company in general meeting; and in a Creditors' Voluntary Winding Up by the Committee of Inspection or, if there is no committee, by the creditors. In practice, it is unusual to pass a separate resolution fixing the remuneration. The item appears as a payment in the final account submitted by the Liquidator to the concluding meeting, and it is, therefore, included in the general resolution approving that account.

Preferential Debts.—The debts payable prior to all other debts are described in S. 264. Briefly, they consist of —

(*a*) Parochial and other rates due and payable within twelve months before the date of the winding up; assessed taxes up to the 5th of April prior to the winding up, not exceeding one year's assessment

(*b*) Wages or salary of a clerk or servant for four months before the winding-up, not exceeding £50 A managing-director is not a "servant" (though if also employed as a clerk or servant he may be entitled to priority). But a Secretary solely employed by the Company is a servant. (*Cairney* v. *Back*, [1906] 2 K B 746) (see paragraph following (*e*) below).

(*c*) Wages of workmen for two months before winding-up not exceeding £25

(*d*) Unless the company is being wound up voluntarily merely for the purposes of reconstruction or amalgamation with another company, or unless the company has rights capable of being transferred to or vested in the workman under S. 7, *Workmen's Compensation Act*, 1925, all amounts due under the *Workmen's Compensation Act*, 1925.

(*e*) Unless the company is being wound up voluntarily merely for the purposes of reconstruction or of amalgamation with another company, all amounts due in respect of contributions payable during the twelve months next before the commencement of the winding-up under either—

(i) the *National Health Insurance Acts*, 1924 to 1928; or
(ii) the *Widows', Orphans' and Old Age Contributory Pensions Act*, 1925; or
(iii) the *Unemployment Insurance Acts*, 1920 to 1929.

A Managing Director is not a clerk or servant. (*Re Newspaper Proprietary Syndicate, Ltd.*, [1900] 2 Ch. 349) But a Director, if also employed as a clerk or servant, may be entitled to priority in that capacity, e g , a director who was also dress editress of a periodical published by the Company, employed at a fixed salary. (*Re Beeton*, [1913] 2 Ch. 279) So also is a chemist employed three days a week to provide formulæ for the manufacture of soaps and perfumes; and an opera singer engaged for the season, though paid for each performance A secretary giving his whole time to the Company is a servant. (*Anglo French Co-operative Society, Ltd*, (1884) 50 L.T. 754), but a secretary who does not give his whole time and discharges

his duties by a clerk appointed and paid by himself is not a "clerk or servant" (*Cairney* v *Back*, [1906] 2 K.B 746) A contributor to a periodical employed at a fixed salary to supply fashion drawings, or weekly articles, but occasionally working for other publishers, is not a clerk or servant The tests are whether a person is doing work for another away from the latter's work or business, and is not exclusively employed by the latter, and is only bound to do a particular class of work, and is not working under the control or subject to the commands of the latter Possibly the last test alone may be decisive (*Re Ashley & Smith, Ltd*, [1918] 2 Ch 378).

If the assets are insufficient to meet these claims, the claimants must abate their claims *pari passu* amongst themselves. In England preferential debts have priority over the debentures in cases where the charge embraces a floating charge on the assets.

In the event of a landlord or other person distraining on any goods or effects of the company within three months next before the date of a winding-up order, the debts given priority above are a first charge on the goods or proceeds of distraint, but the person paying any money under this provision to the preferential creditors is subrogated to their rights [S 264, s.-s (6)]

Crown debts, apart from those above referred to in S. 264, are no longer entitled to priority for payment of debts in the winding up of a company (*re Webb, H J., & Co.*, [1922] 2 Ch. 369). The customary rights of the Crown in this respect were abrogated in 1908 by S. 209 of the Companies (Consolidation) Act, which section is re-enacted in an amended form in S 264 of the 1929 Act.

Secured Creditors.—These, of course, are those creditors who hold a charge upon the whole or any part of the company's property. They are entitled to enforce and realise their security, and, after the recovery of the principal and interest due to them and the expenses of realisation, they must account to the Liquidator for any balance that may remain; or, should the realisation result in a deficiency, they may prove in the ordinary way against the estate for the balance. Briefly stated, three courses are open to the secured creditor. He may (*a*) surrender his security and prove for the full amount of the debt, (*b*) stand upon his security without proving at all, or (*c*) realise or estimate his security, and prove for the balance. The holder of a Promissory Note or Bill of Exchange is not a secured creditor.

When a creditor has estimated his security for voting purposes the Liquidator can, within twenty-eight days, claim the property at the valuation price plus 20 %, or at the revaluation price, if the creditor elects to revalue On the expiration of the twenty-eight days the Liquidator may claim the property, if estimated for dividend purposes, at the valuation price, or require it to be put up to auction. *Per contra*, a creditor who has estimated the value of his security may call on the Liquidator to decide within six months whether he will claim it at the valuation or submit it to auction. If the property is not claimed, the creditor may assume possession of the property, and claim against the estate for any balance that may remain

Speaking generally, it may be said that the Bankruptcy Rules regarding provable debts, contingent liabilities, etc., apply also to companies in liquidation (S. 262).

Dividends.—The Liquidator must send due notice of his intention to declare a dividend to all creditors. There is no statutory form for this notice.

Debentures.—If the company has issued debentures, the passing of a winding-up resolution enables the debenture holders to put a Receiver in possession on their behalf of the company's assets, and this course, in many cases, leaves no surplus for distribution either amongst the other creditors or the shareholders.

Punishable Offences.—The provisions of S. 154 of the *Bankruptcy Act*, 1914 (as amended by the *Bankruptcy Act*, 1926), are *mutatis mutandis* incorporated in the Companies Act, 1929, along with the bankruptcy provisions regarding the keeping of accounts (SS. 271–275).

The procedure in securing a prosecution in a voluntary liquidation is as follows:—

If the Liquidator has reason to believe that any past or present Director, Manager or other Officer or any member of the Company, has been guilty of a criminal offence, he must report the matter to the Director of Public Prosecutions and must furnish him with such information, and give him access to and facilities for inspecting and taking copies of any documents relating to the matter in question, as he may require.

The Director of Public Prosecutions may refer the matter to the Board of Trade for further inquiry, and the Board shall thereupon conduct an investigation, and may apply to the Court for an Order conferring such powers as are possessed by it in the case of a Company being wound up by the Court.

If the Director of Public Prosecutions decides not to take action, he shall inform the Liquidator, who may himself take proceedings subject to the previous sanction of the Court.

If no report has been made to the Director of Public Prosecutions, and it appears to the Court that a past or present officer has been guilty of a criminal act, the Court may, upon the application of any person interested in the winding up, or of its own motion, direct the Liquidator to make such a report, the procedure being then the same as that outlined above.

Where the Director of Public Prosecutions decides to take action, the Liquidator and past or present officers must give all possible assistance. Upon default by the Liquidator to give such assistance, the Court may order the costs of an application by the Director of Public Prosecutions in connection therewith to be borne personally by the Liquidator.

The Board of Trade, with the consent of the Treasury, may direct that the whole or any part of any costs properly incurred by the Liquidator in proceedings brought by him under this section, shall be defrayed as expenses incurred by the Board under this Act in relation to the winding up of companies, and S. 13 (3) of the *Economy (Miscellaneous Provisions) Act*, 1926, shall apply accordingly.

Either on the application of any person interested in the winding up, or of its own motion, the Court may direct the Liquidator to institute proceedings against the offender, or to refer the matter to the Director of Public Prosecutions (S. 277).

List of Contributories.—It has already been stated that, in compulsory liquidation, the list of contributories is settled by the Liquidator as an officer of the Court, after statutory notice has been given to the contributories, and that the calls are made by authority of the Committee of Inspection or the Court. In a Voluntary Liquidation the Liquidator acts on his own responsibility in settling the list and in making calls (S. 248). When uncalled capital is available, the Voluntary Liquidator prepares a similar list to that settled by the Compulsory Liquidator, but the list does not bind the persons whose names are scheduled in the same way as does the list in a Compulsory Liquidation. In Voluntary Liquidation calls can only be enforced by an action in the company's name or by means of a Balance Order, and any person scheduled as a contributory by a Voluntary Liquidator can decline to pay the call note, and can contest any action taken by the Liquidator to compel him to pay. Any question relating to the enforcing of calls will be settled by the Court on application by the Liquidator or a contributory or creditor (S 252).

To pay any classes of creditors in full, or to compromise with creditors or contributories, the Liquidator requires the sanction, in a members' voluntary winding up, of an extraordinary resolution of the company, in a creditors' voluntary winding up, of the Court or the Committee of Inspection [S 248 s.-s. (1) (*a*)]. Otherwise he may exercise without sanction all the powers of a liquidator in a compulsory winding up [S. 248 s.-s. (1) (*b*)] (see p. 413).

Books of Account.—A Voluntary Liquidator exercises his own discretion as to what books he keeps. A Cash Book to record all receipts and payments is necessary, and a separate Banking Account should always be opened. If the business is continued proper Trading Books are required. The Liquidator will be wise if he keeps a Record or Minute Book containing a complete history of the liquidation. Minutes of all proceedings of the Committee of Inspection (if any); copies of all resolutions passed by the creditors, contributories, or Committee of Inspection; the dates on which all notices were advertised, or sent to creditors, or filed, and copies of the notices themselves; notes relating to the settlement of the list of contributories or creditors; particulars of dividends paid and amounts refunded to shareholders; copies of documents filed with the Registrar; a detailed account of the proceedings at the final meeting, and a copy of the final account are all necessary if the Liquidator is to be in a position to give an intelligible account of the winding up. The Liquidator should also keep a record of the posting of notices, etc., in order to prove their despatch in case of need.

Accounts.—When the liquidation is not concluded within one year, the Liquidator must, by S. 284 and Rule 194, send to the Registrar a Statement of Receipts and Payments in the prescribed form (see pp. 446–7). The account should be filed within thirty days of the expiration of the year, or within such extended time as the Court may grant. This rule applies to all three methods of liquidation. Similar statements must thereafter be filed at the close of

(*Liquidator's Accounts*)

No. 92.

Re

(No registration fee payable.)

This is the exhibit marked **B** referred to in the affidavit of *L. Cuthbert Cropper.*

Sworn before me this *15th* day of *April*, 19...

Martin Deedes,
A Commissioner for Oaths.

No. of Company: *962.*

STATEMENT OF RECEIPTS AND PAYMENTS AND GENERAL DIRECTIONS AS TO STATEMENTS

Name of Company. *Bouton d'Or, Limited.*

Size of Sheets

(1) Every statement must be on sheets 13 inches by 16 inches

Form and contents of Statement.

(2) Every statement must contain a detailed account of all the Liquidator's realisations and disbursements in respect of the Company The statement of realisations should contain a record of all receipts derived from assets existing at the date of the winding-up resolution and subsequently realised, including balance in Bank, Book Debts and Calls Collected, Property Sold, etc , and the account of disbursements should contain all payments for costs and charges, or to creditors, or contributories. Where property has been realised, the gross proceeds of sale must be entered under realisations and the necessary payments incidental to sales must be entered as disbursements. These accounts should not contain payments into the Companies Liquidation Account (except unclaimed dividends—see paragraph 5) or payments into or out of Bank, or temporary investments by the Liquidator, or the proceeds of such investments when realised, which should be shown separately.—

(*a*) by means of the Bank Pass Book;
(*b*) by a separate detailed statement of moneys invested by the Liquidator, and investments realised

Interest allowed or charged by the Bank, Bank commission, etc , and profit or loss upon the realisation of temporary investments, should, however, be inserted in the accounts of realisations or disbursements as the case may be Each receipt and payment must be entered in the account in such a manner as sufficiently to explain its nature The receipts and payments must severally be added up at the foot of each sheet, *and the totals carried forward from one account to another without any intermediate balance, so that the gross totals shall represent the total amounts received and paid by the Liquidator respectively*

Trading Account.

(3) When the Liquidator carries on a business, a trading account must be forwarded as a distinct account, and the totals of receipts and payments on the Trading Account must alone be set out in the statement

Dividends, etc

(4) When dividends or instalments of compositions are paid to creditors, or a return of surplus assets is made to contributories, the total amount of each dividend or instalment of composition, or return to contributories, actually paid, must be entered in the statement of disbursements as one sum, and the Liquidator must forward separate accounts showing in lists the amount of the claim of each creditor and the amount of dividend or composition payable to each creditor, and of surplus assets payable to each contributory, distinguishing in each list the dividends or instalments of composition and shares of surplus assets actually paid, and those remaining unclaimed. Each list must be on sheets 13 inches by 8 inches.

(5) When unclaimed dividends, instalments of compositions or returns of surplus assets are paid into the Companies Liquidation Account the total amount so paid in should be entered in the statement of disbursement as one sum.

(6) Credit should not be taken in the statement of disbursements for any amount in respect of Liquidator's remuneration, unless it has been duly allowed by resolution of the Committee of Inspection or of the creditors or of the Company in general meeting or by order of Court as the case may require.

LIQUIDATOR'S STATEMENT OF ACCOUNT.

PURSUANT TO SECTION 284 OF THE COMPANIES ACT, 1929.

Name of Company: *BOUTON D'OR, LIMITED*

Nature of proceedings (whether a members' or creditors' voluntary winding up or a winding up under the supervision of the Court) .. .. *Members' Voluntary Winding up.*

Date of commencement of winding up: *January 15, 19...*

Date to which Statement is brought down · *January 17, 19...*

Name and Address of Liquidator: *L. Cuthbert Cropper,*
Spencer House, South Place, London, E.C.

REALISATIONS.

Date	Of whom received	Nature of Assets Realised.	Amount £	s	d
19.. Jan 20	*R Ryler & Co.*	*Part Proceeds Sale of Stock-in-Trade*	5,000	0	0
„ 22	*R Jones*	*Rent, 221 Smith Street, W.C.*	50	0	0
„ 31	*George Roberts*	*Book Debt collected*	104	6	3
„ 31	*National War Bonds*	*Interest (less tax)*	36	0	0
Feb 8	*Robert Rheid*	*Unpaid Call collected*	100	0	0
„ 9	*Samuel Saul*	*Book Debt collected*	362	0	0
Mar. 31	*Trading Account*	*Total receipts as per separate account*	794	19	6
	Etc.	*Etc*			
		Carried forward			

DISBURSEMENTS

Date	To whom paid.	Nature of Disbursements	Amount £	s	d
19. Jan 28	*George Genders*	*Printing and Stationery*	10	15	6
Feb 9	*William White*	*Redemption of Debenture*	500	0	0
Mar. 1	*Alfred Hunt*	*Law Costs*	15	15	0
„ 5	*Blankshire Bank*	*Cheque Book*	0	8	4
„ 16	*W R Cash*	*Rates of office*	3	6	2
„ 17	*Metropolitan Water Board*	*Water Rate of office*	1	10	0
„ 17	*Inland Revenue*	*Schedule D*	186	0	0
„ 31	*Trading Account*	*Total Disbursements as per separate account*	621	14	9
„ 31	*Board of Trade*	*Fees under Table B*	506	6	9
	Etc.	*Etc*			
		Carried forward			

(*This Statement is required in duplicate.*)

NOTE.—No balance should be shown on this Account, but only the total Realisations and Disbursements, which should be carried forward to the next Account.

ANALYSIS OF BALANCE.

	£	s.	d.
Total Realisations		:	:
Total Disbursements		:	:
Balance ..		:	:

The Balance is made up as follows:—

	£	s.	d.	£	s.	d.
1. Cash in hands of Liquidator					:	:
2. Total payments into Bank, including balance at date of commencement of winding up (*as per Bank Book*)		:	:			
Total withdrawals from Bank ..		:	:			
Balance at Bank					:	:
3. Amount in Companies Liquidation Account					:	:
*4. Amounts invested by Liquidator		:	:			
Less Amounts realised from same		:	:			
Balance					:	:
Total Balance as shown above .. £					:	:

[NOTE.—*Full details of Stocks purchased for investment and realisation thereof should be given in a separate statement.*]

* The investment or deposit of money by the Liquidator does not withdraw it from the operation of Section 285 of the Companies Act, 1929, and any such investments representing money held for six months or upwards must be realised and paid into the Companies Liquidation Account, except in the case of investments in Government Securities, the transfer of which to the control of the Board of Trade will be accepted as a sufficient compliance with the terms of the Section

NOTE.—THE LIQUIDATOR SHOULD ALSO STATE—

(1) The amount of the estimated assets and liabilities at the date of the commencement of the winding up	Assets (after deducting amounts charged to secured creditors and debenture holders)	£
	Liabilities .. Secured Creditors ..	£
	Debenture Holders ..	£
	Unsecured Creditors .	£
(2) The total amount of the capital paid up at the date of the commencement of the winding up ..	Paid up in cash	£
	Issued as paid up otherwise than for cash .	£
(3) The general description and estimated value of outstanding assets (if any)		
(4) The causes which delay the termination of the winding up		
(5) The period within which the winding up may probably be completed		

every six months. These accounts must be on *Form No* 92 (Rules 194 and 195), in duplicate, and verified by affidavit (*Form No.* 93) (see below). No registration or other fees are payable in connection with these statements. When no transactions have taken place since the last return an *Affidavit of No Receipts and Payments* must be filed, for which purpose *Form* 93 may be utilised. If applicable to the circumstances, a Trading Account, a list of dividends paid to creditors, and a list of amounts paid to contributories must also be filed in the prescribed form. Specimens of these forms are shown at p. 449. The totals only of the payments to creditors and contributories

No. 93

No. of Company

Affidavit Verifying Statement of Liquidator's Account Under Section 284

(No registration fee charged.) (*Name of Company.*)

I .. ..
of ... .
the Liquidator of the above-named Company, make Oath and say–That **the Account hereunto annexed, marked* B, *contains a full and true Account of my Receipts and Payments in the winding up of the above-named Company* from the .... day of .... 19.., to the . . .. day of ... ... 19.., inclusive, **and that* I have not, nor has any other person by my order or for my use during such period, received or paid any moneys on account of the said Company **other than and except the items mentioned and specified in the said Account*

I further say that the particulars given in the annexed Form 92, marked B, with respect to the proceedings in and position of the Liquidation are true to the best of my knowledge and belief

Sworn at
....
by the above-named ....
....
this .... day of
.... 19..,

Before me,
A Commissioner to Administer Oaths in the Supreme Court of Judicature.

* If no Receipts or Payments, strike out the words in italics.

The Affidavit is not required in duplicate, but it must in every case be accompanied by a Statement on Form 92 in duplicate.

are entered in the Statement of Receipts and Payments. Creditors and contributories are entitled to inspect and make copies of these accounts.

Shortly after filing the account required by S 284 (Form 92), the Registrar will call upon the Liquidator to pay into the Companies Liquidation Account all moneys which have remained undistributed in his hands for six months. The procedure already described (*re* the application for a Receivable Order and the payment of the money into the Bank of England) applies to all classes of liquidations. No interest is allowed upon funds paid into the

No. 95.

No. of Company ....

LIST OF DIVIDENDS OR COMPOSITION.

Name of Company ....
....

I HEREBY CERTIFY that a Dividend (or Composition) of ... . in the £ was declared payable on and after the .... day of .... 19.. and that the Creditors whose names are set forth below are entitled to the amounts set opposite their respective names, and have been paid such amounts, except in the cases specified as unclaimed.

.... *Liquidator.*

Dated the .... day of .... 19...

To the Board of Trade.

Surname.	Christian Name.	Amount of Proof			Amount of Dividend (or Composition).					
					Paid.			Unclaimed.		
		£	s	d	£	s.	d.	£	s	d.
	Total .. .. £									

(This List is required in duplicate.)

No. 96

No of Company ....

LIST OF AMOUNTS PAID OR PAYABLE TO CONTRIBUTORIES

Name of Company ....
....

I HEREBY CERTIFY that a Return of Surplus Assets was declared payable to Contributories on and after the .... day of .... 19.., at the rate of .... . . per Share, and that the Contributories whose names are set forth below are entitled to the Amounts set opposite their respective names, and have been paid such amounts except in the cases specified as unclaimed.

.... *Liquidator.*

Dated the .... day of .... 19..

To the Board of Trade.

Surname.	Christian Name.	No of Shares.	Amount returned on Shares.					
			Paid.			Unclaimed.		
			£	s	d	£	s	d.
	Total .. .. £							

(This List is required in duplicate.)

Companies Liquidation Account, but at the request of the Liquidator, they will be invested in Government loans. A poundage fee of 3d. must be paid to the Board of Trade upon all sums withdrawn from the Companies Liquidation Account. In the author's experience these regulations have sometimes acted with great harshness in the voluntary liquidations of private companies, where heavy fees are extracted from the shareholders with no compensating advantage.

Winding Up Completed within the Year.—When the Voluntary Liquidator is able to wind up the estate and hold, and file a return of, a final meeting before the expiration of nine months, the Company will be dissolved within a year from the commencement of the winding up—dissolution taking place three months after the filing of the return of the final meeting. In such circumstances a Liquidator may present the final account in the form most convenient to himself, which is usually a simple and condensed Receipts and Payments Account, as illustrated below, and he must file a copy with the Registrar. (*See* S. 236 and S. 245).

RAYON D'OR, LIMITED.

(*In Liquidation.*)

LIQUIDATOR'S FINAL STATEMENT OF RECEIPTS AND PAYMENTS.

FOR SUBMISSION TO THE MEETING OF CREDITORS AND CONTRIBUTORIES CALLED FOR SEPTEMBER 30, 19...

Receipts.	£	s.	d.	Payments.	£	s.	d.
Proceeds Sale of Lease of premises in Pancras Road ..	2,000	0	0	Debenture held by Bankers paid off (including interest and costs)	2,000	0	0
Proceeds Sale by Tender of Company's Stock-in-Trade	8,540	0	0	Liquidator's remuneration	350	0	0
Proceeds Sale of Company's Goodwill	500	0	0	Law Costs	52	0	0
Proceeds Sale by Auction of Company's Machinery and Plant	7,650	0	0	Auctioneer's Charges	158	0	0
Book debts collected	6,420	0	0	Incidental Expenses, *Gazette* notices, etc .	72	0	0
				Preferential Creditors for Rent and Rates	210	0	0
				Unsecured Creditors: First and Final Dividend of 5s. in £1 to 63 Creditors on their unsecured claims amounting to £89,000	22,250	0	0
				Balance to Bank of England (Liquidations Account) ..	18	0	0
	£25,110	0	0		£25,110	0	0

Should any further information be desired by Creditors or Contributories, I shall be happy to furnish it.

Yours truly,
ROBERT EASLEA,
Chartered Accountant,
Liquidator.

961 FINSBURY CIRCUS,
LONDON, E.C.
September 24, 19...

Statutory Meetings in Liquidations.—It has already been remarked that the Liquidator can summon company meetings at any time (*a*) to pass a special or extraordinary resolution in respect of any matter requiring it; (*b*) to obtain the company's direction on matters arising from the liquidation affecting the company. There are meetings, however, which he is *bound* by statute to call On the completion of the first, and at the close of every succeeding year of the liquidation, he must call a meeting of the company and lay before it an account of his "acts and dealings and of the conduct of the winding up during the preceding year" (S. 235). In the case of a creditors' voluntary winding up a similar meeting of the company *and* a meeting of creditors must be held at the expiration of each year (S. 244). The common form of this account has already been referred to (see p. 446).

Final Meeting of the Company.—At the conclusion of a members' voluntary liquidation the Liquidator must call a final meeting of the company and submit his final account (S. 236, see p. 450). In a creditors' voluntary winding up, as soon as the affairs of the company are fully wound up, the Liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property disposed of, and thereupon call a general meeting of the company and a meeting of the creditors for the purpose of laying the account before them and giving any explanation thereof (S. 245). At least one month's notice of these meetings must be given by advertisement in the *Gazette*, and notice should also be sent by post to every member and creditor of the company. Generally a copy of the final account accompanies the notice. Within one week of holding the meetings the Liquidator must send to the Registrar a copy of the account and a return of the meeting (*Form* 15 B, which is known as the *Return of the Final Winding-up Meetings of Members and Creditors*. This return is filed by the Registrar, and three months after the date of registration the company is considered to have been dissolved. If, as is sometimes the case, the Liquidator is unable to get together a quorum for the final meeting, the Return must state the fact.

In the case of a members' voluntary winding up, an extraordinary resolution should be passed at the final meeting (and filed with the Registrar) directing the Liquidator to dispose of the company's books. In the case of a creditors' winding up, the Committee of Inspection, or, if there is no committee, the creditors, are empowered to direct how the books and papers are to be disposed of. It is not unusual to instruct the liquidator to keep the books for two years prior to having them destroyed. Five years from the date of dissolution no responsibility can attach to anyone to produce the books (S. 283).

At any time within two years of the date of the dissolution the company, or any other person interested, may apply to the Court for an order declaring the dissolution void (S. 294). This is sometimes done where fresh assets appear unexpectedly for distribution, or where it is desired to reopen proceedings against the company or its officers on the ground of fraud.

Disposal of Unclaimed Moneys.—If any unclaimed moneys remain in the hands of the Liquidator, he should pay them into the Companies Liquidation Account at the Bank of England: but before doing so he must apply to the Controller, Companies Department, Board of Trade, Great George Street, London, S W. 1, on *Forms C.D.* 2 and *C.D.* 52, which are shown at pp. 453–4, for a *Receivable Order* (see p. 428). This order must be filled in and forwarded, with the remittance, to the Bank of England, Law Courts Branch, London, W.C. A certificate of receipt will be sent to the Liquidator by the Board of Trade [S 285, s -s. (1)]

Audit.—There is no statutory provision for the audit of the accounts in a voluntary liquidation; but if a Committee of Inspection has been appointed the Liquidator will be wise to submit his accounts to the Committee for audit. The Court has power to order an examination of the Liquidator's accounts in case of need, and the accounts presented at the annual meetings held in accordance with SS. 236 and 245 and the final account are open to the inspection of members and, in the latter case, of creditors, who may ask questions concerning them.

Release of Liquidator.—No provision is made by statute for the formal release of a Voluntary Liquidator.

Receiver for Debenture Holders.—It has already been remarked that when debentures have been issued a resolution for voluntary winding up is usually the signal for the appointment of a Receiver by the debenture holders themselves, or, in the absence of such power in the instrument of charge, for application to the Court to appoint. The Receiver, on being appointed, proceeds to take possession of the company's assets on behalf of the debenture holders. The modern debenture usually gives a wide floating charge over the assets, and, in the majority of cases, experience shows that little, if any, surplus is available for the creditors after the debenture holders' claims have been satisfied In such cases the Liquidator can do little more than watch the acts of the Receiver, and so satisfy himself that the creditors' rights are respected. Reckless or wilfully negligent realisation of the assets would afford good ground for an action for damages. The Liquidator is entitled to copies of the Receiver's accounts, and, subject to the Receiver's right of inspection, to possession of all the company's books. He is also entitled to the company's seal. It is not unusual in practice for the debenture holders to guarantee the reasonable expenses of a Liquidator, since, without the appointment of a Liquidator, some assets are difficult to realise.

Where receivership proceedings are taken against a Company in liquidation, the Court frequently appoints the Liquidator as Receiver for the Debenture Holders.

Statement of Affairs.

In a Members' Voluntary Liquidation the directors and officers of the company are not obliged to prepare a Statement of Affairs or Deficiency Account, although in practice the Liquidator usually

COMPANIES ACT, 1929, SECTION 285.

FORM C.D.1.—APPLICATION FOR RECEIVABLE ORDER R O. No. ......

I .... of* .. .., Liquidator of the undermentioned Company. hereby apply to the Board of Trade for a Receivable Order to pay into the Companies Liquidation Account at the Bank of England the sums of which the following are the particulars:—

Name of Company .. ..

State whether Wound up Voluntarily, and whether under the Supervision of the Court .. ..

Date of Resolution for Voluntary Winding Up .. . .

Nature of Fund, whether Undistributed Balance or Dividend, Return (first or second, etc), or other apportioned amount. In the case of Dividends and Returns distinguish between amounts due to Creditors and to Contributories	Undistributed Moneys or Unclaimed Dividends which have remained undistributed or unclaimed for Six Months.		Amount			These Columns to be filled in by Board of Trade.					Examined.	Remarks
						No. of Paying out Order.	Date of Payment out	Amount of Payment out				
			£	s	d			£	s	d		
Undistributed balance	. . ..											
Dividends, Returns, or other apportioned amounts remaining unclaimed or unpaid, viz :—	Names and addresses of Persons to whom the unclaimed Dividends, etc , are due	Date when declared and rate of Dividend or Return.										
Further amount of dividend, if any, as per Schedule (C No 1 additional) attached†												
Total Remittance												

* State Address and Occupation. † These additional Schedules should only be used when the space in this form is insufficient

Dated this .... day of ...., 19... (Signature) .. ..

NOTE.—The person paying in should add any other particulars that the circumstances render expedient. He is responsible for the full disclosure of all the facts necessary for his discharge

An Abstract of the particulars on this Form should be made on Form C D. 2, and both Forms should be returned to the Comptroller of the Companies Department, Board of Trade, Great George Street, London, S.W 1.

COMPANIES ACT, 1929, SECTION 285.

FORM C.D.2 —CERTIFICATE.

Mr.......	*Name of Liquidator*
....	*Full postal address to which certificates should be sent.*

ABSTRACT OF PARTICULARS OF APPLICATION.

Name of Company	....		
State whether Wound Up Voluntarily, and whether under the Supervision of the Court	....		
Date of Resolution for Voluntary Winding Up	....		
AMOUNT PROPOSED TO BE REMITTED—	£	s	d.
Undistributed Balance			
Dividends or other Apportioned Amounts			
Total			

Dated this .... day of .... 19...
(Signature) .. ..

Receivable Order No. . ...

This part to be filled up by the Board of Trade

IT IS HEREBY CERTIFIED that .... did on the .... day of . ... 19.. pay into the Companies Liquidation Account at the Bank of England the sum of .. .. Pounds, ... Shillings, and .... Pence.

....
Assistant Secretary for Finance, Board of Trade

Dated this .... day of .... 19 ..

This Form must in all cases be filled up and sent to the Comptroller of the Companies Department, Board of Trade, Great George Street, London, S.W.1, with Form C D. 1.

(C. D. 52)

No. ....

COMPANIES LIQUIDATION ACCOUNT.

RECEIVABLE ORDER.

Name of Company ....

BOARD OF TRADE,
.. .. 19...

Please to receive from ....
the sum of ....Pounds,..........Shillings, and... ......Pence, and place the same to the Credit of the Companies Liquidation Account.

£ ....

H. P. HAMILTON.

To the Agent of the
Bank of England, Law Courts Branch, London, W.C.2

N.B.—All Drafts and Cheques should be drawn in favour of the "Bank of England" or Order, and crossed Bank of England.

This Receivable Order must accompany the remittance which should be sent to the Agent of the Bank of England, Law Courts Branch, London, W.C. 2.

Letters addressed to the Bank of England must be prepaid.

does prepare a financial statement similar to that given at p. 440. In a Creditors' Voluntary Winding up, the directors must lay a statement before the meeting of creditors held to nominate a Liquidator (see p. 438). In compulsory liquidation one of the first duties of the Official Receiver is to request the directors, or other responsible officials of the company, to prepare a Statement of Affairs in the prescribed form. Considerable experience is necessary in most cases for this work, and it is customary for the directors, with the sanction of the Official Receiver, to employ professional assistance The fees allowed by the Official Receiver for this purpose may be charged against the company's assets, but no person can be allowed any costs or expenses unless they have been sanctioned by the Official Receiver before being incurred (Rule 54)

The regulations affecting the preparation and lodgment of Statements of Affairs are contained in S. 181 and *Winding-up Rules* 50–54. The form itself and the lists are given at pp. 463–8, but it should be noted that, when copies of the "front sheet" of the statement are sent to creditors and contributories, in accordance with the Act, only such items as have figures against them are inserted. In the illustration the form is given *in extenso*.

The statement must be in duplicate, and one copy must be verified by affidavit and filed with the Registrar by the Official Receiver. The verification must be made by one or more of the directors and the secretary, or other chief officer, of the company, or where such persons are not available, the Official Receiver may require persons who have held those positions within the preceding year to submit and verify the statement (S. 181).

Fourteen days are allowed in which to prepare the statement, but, good reason being shown, the time is frequently extended by written certificate granted by the Official Receiver or the Court. The extension certificate must be filed with the statement. Default in making the return renders the directors and other persons responsible liable to a fine not exceeding £10 per day while default continues. The statement may be inspected by a creditor or contributory, either personally or by his agent, at all reasonable times, and the same persons may obtain copies of it, or any part of it, at a cost of 4d. per folio.

PREPARATION OF STATEMENT OF AFFAIRS.

The student is well aware of the distinction between a Balance Sheet and a Statement of Affairs. The former presents a fair and reasonable aspect of the financial position of the undertaking as a going concern; the latter discloses, as nearly as possible, the immediate realisable value of the assets, and shows how far they suffice to meet the liabilities marshalled against them. A recent Balance Sheet, if available, furnishes a useful background to work upon, but it will be obvious to the student that much of the information necessary for the preparation of a Statement of Affairs will be found outside the books of account. The values of all assets must be carefully assessed, and detailed schedules of

the liabilities prepared, with full particulars of all securities held by creditors, as indicated by the statutory forms. The practical difficulties arising from the preparation of an actual Statement of Affairs are too diverse for any attempt to be made to deal with them in this book. In general, the assistance of the directors and secretary is essential in arriving at just estimates of the values of the assets, and if these officials fail to grasp the importance of accurate figures, as they sometimes do, the difficulties of preparing the Statement are greatly increased. The statement should embrace all transactions up to the date of the winding-up order. If the debenture holders appointed a Receiver prior to the winding-up order, the date of his appointment will be the date of the statement also, as it marks the end of the period of control by the directors.

If the books have not been written up to date, the first step will be to write them up, and since the figures employed in the Statement " balance " in precisely the same manner as those in a Balance Sheet, a Trial Balance is essential.

It should be noted that the front page of the Statement exhibits the totals of the various items detailed on the attached lists.

Liability Side of Statement.—The preparation of Schedules A to G, which deal with the liabilities of the company, will then follow.

List A deals with the unsecured creditors, and the Schedule will consist of the names and addresses, numbered and arranged alphabetically, of those creditors appearing in the Trial Balance who hold no security for the amounts owing to them. The dates when the debts were incurred must also be inserted. No debts statute-barred at the time when winding up commenced should be included. The unsecured bank overdraft, if any, will also appear in this list. In arriving at the figures, contra accounts against any of the creditors are separately shown and are deducted from the claim, and the net amount due is included in the total extended into the "expected to rank" column. If bills of exchange or promissory notes are held by any creditor, particulars should be noted under his name. In case of doubt arising as to the amounts due to creditors, they can, of course, be communicated with.

List B comprises a schedule of the fully secured creditors, excluding the debenture holders, if any. No creditor must be included in this list whose security does not equal or exceed the debt due to him. Particulars of the security held in each case and its estimated value must be given. When the estimate has been made of the total value of the securities held, the amount must be deducted from the total of the debts due, and the surplus (if any) carried to the assets side in the space (*d*) provided. It will be obvious that, under this heading, there will be no liability to extend into the " expected to rank " column.

List C, the schedule of creditors partly secured, is dealt with in the same way, except that, after deducting the estimated value of the securities held, there will be a deficiency in connection with

these debts, the total of which must be extended into the " expected to rank " column. When secured or partly secured creditors value their securities at less than the amounts shown in the company's books, the difference must be treated as depreciation, and be carried to the deficiency account. If any of the unsecured or partly secured creditors are also contributories, they must be separately stated at the end of the respective lists.

List D contains full particulars of bills discounted other than the company's own acceptances for value. The nature of the liability of the company as endorser or acceptor must be stated, and accommodation bills must be distinguished from other bills. Discounted bills will appear here, because the company is liable in case the prior parties to the bills fail to honour them. Nothing, of course, is extended into the " expected to rank " column, except in those cases where a liability is anticipated owing to the probable dishonour of the bill.

List E is provided for " other liabilities," a phrase which embraces contingent liabilities such as those arising out of leases, contracts, and other onerous covenants, guarantees, claims subject to litigation, liability for calls on partly paid shares, etc The name, address and description of each claimant must be given. Great care is necessary in the compilation of this list, as many liabilities of this nature will not appear in the books, and will only be disclosed by the papers, minutes or other records of the company, or by examination of the company's officials

List F deals with the preferential creditors. Under S. 264 of the Companies Act of 1929, certain creditors are entitled to preferential payment out of the assets of the company. These have already been enumerated (see p. 441).

The total of the preferential claims is entered " short " on the liabilities side, and is deducted, on the assets side, from the " Estimated Total Assets," thus showing the amount available to meet the debenture holders' claims. Preferential creditors whose claims exceed the statutory limits (see p. 441) are unsecured creditors for the balance of their claims, and these appear in List A.

List G contains particulars of the debenture holders, if any exist, and if there is more than one issue, separate lists of each issue must be furnished. Short particulars of the assets covered by the debentures must also be added. As in the case of preferential claims, the total amount of the debentures is entered " short " on the liabilities side, and a similar amount is deducted, on the assets side, from the " Estimated amount available to meet claims of debenture holders." If any surplus remains, it represents the amount available to meet the claims of the unsecured creditors; but if the statement reveals a deficiency the amount available is carried to the liability side and deducted from the total debenture claim, the balance being extended into the " Expected to rank " column

Assets Side of Statement.—*List H*, Property, must contain full particulars of property of all kinds not disclosed in other lists. The

sub-headings are sufficiently explicit in themselves, and need no comment. The valuations placed upon these assets frequently prove a great difficulty. The books will show the cost price less depreciation, whereas the statement should show, as nearly as possible, the immediate selling price. In many cases the officials of the company will prove the only source from which estimates and information can be obtained. The natural tendency of the directors and officers of the company is to form too optimistic an opinion of the value of the assets, and those responsible for the actual preparation of the statement will do well to correct that tendency by exercising caution. Assets such as stock in hand should, if possible, be valued by independent experts. Needless to say, in the majority of cases the revaluation of these assets for break-up purposes will not agree with their book values in the Trial Balance. These differences must be shown as depreciation in the Deficiency Account.

List I consists of schedules of the *Book Debts* analysed as between Good, Doubtful, and Bad. The Ledger folio must be inserted against each entry. Careful provision must be made for all doubtful debts, and all trade discounts to which customers are entitled. The good book debts are extended at once into the "Estimated to produce" column. The doubtful and bad debts are entered "short," and an estimate is made of the amount they will produce, and extended into the outer column. The difference between this estimate and the amounts at which the debts stood in the Trial Balance will, of course, represent loss, and must be entered under heading VI, "Bad debts," in the Deficiency Account

Lists J and K.—These deal respectively with unmatured bills of exchange and unpaid calls. Both categories must be treated in the same way as book debts, and the amounts they are estimated to realise be extended into the outer column. The holding of each shareholder, and the folio of his account in the Share Register, must be given in *List K*. It will be noted that the nominal amount of the unpaid capital liable to be called up is stated as a footnote, and not as an asset in the body of the statement.

Lists, L, M, N.—These contain the names, addresses, and occupations of the different classes of shareholders, with details of the shares held, the unpaid calls, and the amounts they are estimated to produce, the Share Register folio, etc. List L is used for founders, M for ordinary, and N for preference shares.

Amount of Deficiency. Having completed the process described above, it is possible to determine the "Estimated Total Assets," from which the preferential claims are deducted, and, when the debentures (if any) have also been deducted, to arrive at the net amount available to meet the unsecured claims. The balance between the claims "expected to rank," as shown on the liabilities side, and the balance of assets available is usually the amount of the deficiency to be entered in the space provided, and accounted for by means of the Deficiency Account. The deficiency "as regards creditors" disclosed by the first section of the statement is carried forward to Section II, "As regards contributories"

In this section the paid-up capital of the company is added, and the total of the deficiency is then finally determined. The necessary details as regards the capital will be found in the Share Register. The division of the statement into two sections is the chief point of difference between it and a Statement of Affairs in bankruptcy proceedings.

Deficiency Account.—When a Statement of Affairs shows a deficiency as regards the contributories—and this is the case with the majority of statements—it becomes necessary to prepare a Deficiency Account. The Summary, or "Front Sheet," dealt with above, practically forms the Balance Sheet of the company on a "break-up" basis. The Deficiency Account is the complement of the Summary, taking the place of the Profit and Loss Account, and showing how the deficiency has arisen. The first section of the summary shows the deficiency in respect of outside claims, and the second section shows the total deficiency after the net amount of the share capital has been added. The Deficiency Account must cover the whole period of the company's history if it has been in existence for a less period than three years, and, if it has been registered for a longer period, then the account must cover the three years immediately preceding the winding-up order. The statutory form of the account will be found at p. 468

The account starts with the excess of assets over liabilities (or *vice versa*) shown by the Balance Sheet at the commencement of the three years or other period. This amount, if a surplus, is increased by the profits made (if any) and other resources, such as interest, transfer fees, moneys received on forfeited shares account, and so on. The total of these items, when added to the deficiency brought forward from the second portion of the summary described above, will give the total deficiency to be accounted for on the other side of the account. The headings under which the loss or deficiency has been incurred are, for the most part, self-explanatory. The necessary material for the composition of the items will be obtained by analysing the Trading and Profit and Loss Accounts for the period. It will be noted that these items are divided into two categories, i.e. paid and unpaid. The amounts making up the latter total will be found in the lists of preferential and unsecured creditors The remaining three headings of losses (V, VI, and VII) will be furnished by the Profit and Loss Accounts, and by the depreciation and losses arising out of the revaluation of the various assets for winding-up purposes.

The directors are responsible for the accuracy of the figures and estimates appearing in the statement, but the accountant who prepares it must take every precaution to ensure that it is as reliable as possible. Each page of the statement must be signed by those responsible for its preparation, and the front page must bear an affidavit to the effect that the statement and lists are full, true, and complete. On receiving the Statement of Affairs the Official Receiver may call upon anyone who is responsible for, or who has taken part in, its preparation to explain any point on which he may desire information, and such persons must attend any appointments made by the Official Receiver for that purpose.

As soon as possible the Official Receiver sends to every creditor and contributory a summary, i e. the front sheet and the deficiency account, of the Statement of Affairs, together with his observations thereon. The observations usually take the form of a short review of the causes which have led to the liquidation and a recommendation, in certain cases, that further inquiry should be made into the promotion of the company or the subsequent conduct of its business. If it can be proved that the directors have been guilty of misfeasance, they will be subject to claims by the Liquidator for breach of trust. Such claims sometimes arise in connection with the payment of dividends out of capital.

Thus, where directors have knowingly paid dividends out of capital, they will be liable to refund the amount to the Liquidator (*in re Oxford Benefit Building Society*, [1886] 35 Ch. D. 502); or where they have done so relying unduly on the statements of subordinates (*Leeds Estate, etc., Co.* v. *Shepherd*, [1887] 36 Ch. D. 787). Similarly directors have been held liable where they have illegally issued shares at a discount (*Hirsche* v. *Sims*, [1894] App. Ca. 654); and they will be liable upon summons by the Liquidator in other cases of "gross negligence" (*In re Brazilian Rubber Plantations*, [1911] 1 Ch. 425).

But they have been held not liable where they paid a dividend unlawfully, but relying properly on facts which were untrue, but which if true would have justified its payment (*Dovey* v *Cory*, [1901] App. Ca. 477). Further, if it appears that a director, although strictly liable, has acted honestly and reasonably and ought fairly to be excused, the Court may relieve him from liability upon such terms as seem proper (S 372).

The nature of the information required by the prescribed form of a Statement of Affairs and the accompanying schedules will be gathered from the following:

Example.—Eastwoods, Ltd., was formed in 1931 with a nominal capital of £50,000 in 50,000 shares of £1 each, all of which were fully subscribed. 150 5 % debentures of £100 each were issued in 1933. An order for compulsory Liquidation was made on January 31, 1935. The following are the particulars available for the preparation of the Statement of Affairs. Net losses: 1932, £4,000; 1933, £6,500; 1934, £20,000. Before arriving at the above losses the following amounts had been debited to the accounts:—

	1932	1933	1934.	Total
	£	£	£	£
Wages (charged to Profit and Loss Account)	3,860	3,920	3,510	11,290
Salaries	1,980	1,990	2,000	5,970
Rent of City Office	150	150	150	450
Rates and Taxes	362	381	390	1,133
Law Costs	10	201	940	1,151
Interest on Loans	62	192	102	356
Interest on Debentures	—	250	500	750
Commissions	50	10	48	108
Bad Debts	141	650	984	1,775
Directors' Fees	400	300	200	900
Depreciation	860	940	970	2,770
Preliminary Expenses	2,000	2,000	1,000	5,000
General Expenses	621	704	692	2,017

In 1933, £250 profit was made on the sale of an investment. The transfer fees during the three years amounted to £10, £22 and £6 respectively

The assets of the company, and the values placed upon them were as follow:—

	As per last Balance Sheet.	Valued at
	£	£
Freehold Property	10,000	7,500
Machinery and Plant	18,000	5,000
Patents	10,000	1,000
Investments	6,000	5,500
Stock-in-Trade	15,000	7,500
Profit and Loss Account	30,500	—
Cash	10	10
Book Debts	7,000	—
Good	—	5,000
Doubtful, £1,000, estimated to produce	—	500
Bad, £1,000, estimated to produce	—	Nil

The unpaid calls, estimated as good, amounted to £400.

The liabilities were · Bank Overdraft, £5,000, secured by deposit of investments valued at £5,500; Outstanding Wages, £160; Salaries, £100, Rates, £22; Bills Payable, £8,000, Sundry Creditors, £18,628.

The first step necessary is the construction from the above particulars of the Balance Sheet of the Company as at the date of the winding-up order The Balance Sheet is as follows:—

EASTWOODS, LIMITED.

BALANCE SHEET AT THE DATE OF THE WINDING-UP ORDER.

	£	£	s	d		£	s.	d
Capital—					Freehold Property	10,000	0	0
50,000 shares of £1					Plant and Machinery	18,000	0	0
each	50,000				Patents	10,000	0	0
Less Unpaid Calls	400				Stock-in-Trade	15,000	0	0
		49,600	0	0	Sundry Debtors	7,000	0	0
Debentures (5%), 150 of £100					Investments	6,000	0	0
each		15,000	0	0	Cash in hand	10	0	0
Bank Overdraft		5,000	0	0	Profit and Loss Account ..	30,500	0	0
Creditors—								
Trade Accounts ..	18,628							
Outstanding Expenses	282							
Bills Payable ..	8,000							
		26,910	0	0				
		£96,510	0	0		£96,510	0	0

For solution (on official forms), see inset and pp. 463–8.

Distribution of Surplus.—Should the Liquidator find himself in the happy but unfamiliar position of having a surplus in hand after the payment of costs and all creditors' claims, he must proceed to divide the surplus amongst the shareholders in accordance with their rights as set out in the Memorandum and Articles of Association If there are several classes of shareholders, the preferential rights of each class as regards the repayment of capital must be observed. If there are no preference shares, then the surplus is available for division *pro rata* amongst the ordinary shareholders. It should be noted that where there are preference

shares the holders may be entitled to payment of arrears of dividend (if cumulative) out of any surplus assets, although no dividends were declared by the company before the winding up and although no profits were in fact earned (*In re Springbok Agricultural Estates*, [1920] 1 Ch. 563). The point depends mainly upon the wording of the Articles of Association (or resolution) attaching preferential rights to the Preference Shares Moreover, the preference shareholders, in the absence of anything to the contrary in the Memorandum and Articles, are entitled to share equally with the ordinary shareholders in any surplus assets after repayment of all paid-up capital (*Anglo-French Music Co.* v *Nicol*, [1921] 1 Ch. 386). But definitive rights attached to preference shares may negative the right to share in any surplus; the exact wording of each case must be interpreted by the Courts when their decision is sought (*see Collaroy Company* v. *Gifford*, [1928] Ch. 144, in which all the previous decisions are reviewed by the judge).

EXAMINATION QUESTIONS

1. Summarise the principal causes that bring companies into liquidation. (*Incorporated Accountants.*)

2. In what different modes may a company be wound up? In a voluntary winding up, within what time must the Liquidator summon a meeting, and what notices, and to whom, must he give of it? What questions have to be determined at such first meeting? When a winding-up order has been made by the Court in England, what several meetings have to be summoned by the Official Receiver, and for what purposes? (*Incorporated Accountants.*)

3. "A company may be wound up by the Court if it is unable to pay its debts." How does the Companies Act, 1929, define "inability to pay its debts"? (*Central Association Accountants*)

4. Under what circumstances may a company be ordered to be wound up by the Court? (*Incorporated Accountants*)

5. What Courts have jurisdiction to wind up companies registered in England? (*Incorporated Accountants*)

6. Subject to what conditions may a shareholder present a winding-up petition? Is there any case in which shareholders only are entitled to present a petition? (*Chartered Institute Secretaries*)

7. Explain the manner of appointing a Liquidator in a compulsory and a voluntary winding up respectively. (*Incorporated Accountants.*)

8. For the purposes of the Companies Act, 1929, in relation to a winding up by the Court in England, who is meant by the term "Official Receiver"? What particulars must be shown in the Statement of Affairs to be submitted to him, and, upon receipt thereof, as to what matters is he to report to the Court? (*Incorporated Accountants.*)

9. What matters have to be dealt with by the Official Receiver in the preliminary report required to be presented by him to the Court after he has received the Statement of Affairs of a Company ordered to be wound up by the Court in England? (*Chartered Accountants.*)

10. How do Compulsory and Voluntary Liquidations differ as regards (*a*) the commencement of the liquidation, (*b*) settling the list of contributories? (*Central Association Accountants.*)

11. What conditions are necessary before a creditor of a Limited Company can present a petition for Compulsory Liquidation? (*Chartered Accountants.*)

12. What control has the Board of Trade over Liquidators of companies which are being wound up by the Court and voluntarily? (*Chartered Accountants.*)

(*Continued on p.* 469.)

LIST A.—UNSECURED CREDITORS.

The names to be arranged in alphabetical order and numbered consecutively, Creditors for £10 and upwards being placed first.

NOTES—1 When there is a contra account against the Creditor, less than the amount of his claim against the Company, the amount of the Creditor's claim and the amount of the contra account should be shown in the third column, and the Balance only be inserted under the heading "Amount of Debt," thus:—

	£	s.	d.
Total amount of Claim			
Less. Contra Account			

No such set-off should be included in List "I"

2. The particulars of any Bills of Exchange and Promissory Notes held by a Creditor should be inserted immediately below the name and address of such Creditor

3 The names of any Creditors who are also Contributories, or alleged to be Contributories, of the Company must be shown separately, and described as such at the end of the List

No.	Name	Address and Occupation	Amount of Debt £	s	d	Date when Contracted Month	Year.	Consideration.
1	*William Robinson*	*Prestonpans*	*391*	*4*	*2*	*March*	*1932*	*Iron girders*
2	*George Smith*	*46 Orwell Street, London*	*108*	*16*	*1*	*January*	*1933*	*Advertising*
3	*Walter White & Co.*	*361 Low Parade, Ipswich*	*94*	*5*	*6*	*October*	*1932*	*Timber*
	Etc.	*Etc*				*Etc.*		*Etc*

(Signature) *Robert Allways.*
Dated *February 8*, 19...

LIST B.—CREDITORS FULLY SECURED (NOT INCLUDING DEBENTURE HOLDERS).

No	Name of Creditor	Address and Occupation.	Amount of Debt £	s	d	Date when Contracted. Month	Year	Consideration	Particulars of Security	Date when given.	Estimated value of Security. £	s	d	Estimated Surplus from Security £	s	d
1	*Loamshire Bank, Ltd*	*401 Cornhill, London, E.C., Bankers*	*5,000*	*0*	*0*	*March*	*19..*	*Bank Overdraft*	*Shares in limited companies*	*March, 19 .*	*5,500*	*0*	*0*	*500*	*0*	*0*

(Signature) *Robert Allways.*
Dated *February 8*, 19...

LIST F.—PREFERENTIAL CREDITORS FOR RATES, TAXES, SALARIES, AND WAGES.

No.	Name of Creditor.	Address and Occupation.	Nature of Claim.	Period during which Claim accrued due	Date when due	Amount of Claim. £	s	d	Amount payable in full £	s	d	Difference ranking for Dividend £	s	d.
1	*Walter White*	*62 Broad Avenue, Ealing, W. Company Secretary*	*Salary*	*3 months*	*Dec. 31, 19..*	*100*	*0*	*0*	*100*	*0*	*0*			
2	*Sundry Workmen*	*(See separate list attached)*	*Wages*	*1 week*	*Dec. 31, 19*	*160*	*0*	*0*	*160*	*0*	*0*			
3	*Houndsditch Corporation*	*Town Hall, Houndsditch, E C.*	*Rates*	*3 months*	*Dec. 31, 19..*	*22*	*0*	*0*	*22*	*0*	*0*			

(Signature) *Robert Allways.*
Dated *February 8*, 19...

LIST G.—LIST OF DEBENTURE HOLDERS.

The Names to be arranged in alphabetical order and numbered consecutively.

SEPARATE LISTS must be furnished of holders of each issue of Debentures, should more than one issue have been made.

No	Name of Holder.	Address	Amount £	s	d	Description of Assets over which Security extends.
1	*Abel, Charles*	*62 Lansdown Road, Reading*	*500*	*0*	*0*	*Whole of Company's property*
2	*McArthur, George*	*95 Park Lane, London, W.*	*1,000*	*0*	*0*	*Whole of Company's property*
3	*Nottingham, Thomas*	*The Elms, Basford*	*200*	*0*	*0*	*Whole of Company's property*
	Etc.	*Etc.*				*Etc.*

(Signature) *Robert Allways.*
Dated *February 8*, 19..

LIST H.—PROPERTY.

Full particulars of every description of property not included in any other lists are to be set forth in this list.

	Full Statement and Nature of Property.	Estimated Cost			Estimated to produce		
		£	s	d	£	s	d.
	(*a*) Cash at Bankers		*nil*			*nil*	
	(*b*) Cash in hand	*10*	*0*	*0*	*10*	*0*	*0*
	(*c*) Stock-in-Trade, at	*16,000*	*0*	*0*	*7,500*	*0*	*0*
	(*d*) Machinery, at *Company's works*	*22,000*	*0*	*0*	*5,000*	*0*	*0*
	(*e*) Trade fixtures, fittings, office furniture, utensils, etc.						
[State particulars.]	(*f*) Investments in Stocks or Shares, etc (*Set out shares in limited companies*)	*6,000*	*0*	*0*	*5,500*	*0*	*0*
[State particulars.]	Loans for which Mortgage or other security held						
	(*h*) Other Property, viz.:—						
	Patents	*10,000*	*0*	*0*	*1,000*	*0*	*0*
	Freehold Property	*10,000*	*0*	*0*	*7,500*	*0*	*0*

(Signature) *Robert Allways.*
Dated *February 8*, 19..

LIST I.—DEBTS DUE TO THE COMPANY.

The names to be arranged in alphabetical order, and numbered consecutively.

NOTE.—If any Debtor to the Company is also a Creditor, but for a less amount than his indebtedness, the gross amount due to the Company and the amount of the Contra Account should be shown on the third column, and the balance only be inserted under the heading " Amount of Debt," thus :—

	£ s. d
Due to Company	
Less Contra Account	

No such claim should be included in Sheet " A "

No.	Name of Debtor	Residence and Occupation.	Amount of Debt.									Folio of Ledger or other book where particulars to be found	When Contracted		Estimated to produce			Particulars of any Securities held for Debt.
			Good.			Doubtful			Bad.				Month	Year.				
			£	s.	d	£	s.	d	£	s.	d				£	s	d	
1	*Albed, George*	*717 King's Avenue, London, E.C.*	*150*	*0*	*0*							*S L 14*	*Nov.*	*19..*	*150*	*0*	*0*	*None*
2	*Brown, Cecil*	*Low Works, Altcar*				*25*	*0*	*0*				*S L 28*	*April*	*19*	*10*	*0*	*0*	*None*
3	*Cutford, Charles*	*Grange Road, Bromley*	*201*	*0*	*0*							*S L 109*	*Dec.*	*19..*	*201*	*0*	*0*	*None*
	Etc.	*Etc.*										*Etc.*						*Etc.*

(Signature) *Robert Allways.*
Dated *February 8*, 19..

LIST K.—UNPAID CALLS.

Consecutive No.	No. in Share Register.	Name of Shareholder.	Address and Occupation.	No of Shares held.	Amount of Call per Share unpaid			Total amount due.			Estimated to realise.		
					£	s	d.	£	s.	d	£	s	d.
1	42	*Dowden, Alfred*	*Glenties, Donegal, Ireland* *Farmer*	*400*		*10*	*0*	*200*	*0*	*0*	*200*	*0*	*0*
2	16	*Rouget, Paul*	*201 Rue St Honoré, Paris* *Gentleman*	*400*		*10*	*0*	*200*	*0*	*0*	*200*	*0*	*0*

(Signature) *Robert Allways.*
Dated *February 8*, 19..

LIST M.—LIST OF ORDINARY SHARES.

No	Register No	Name of Shareholder	Address.	Nominal amount of Share	No of Shares held	Amount per Share called up			Total Amount called up		
						£	s	d	£	s	d.
1	1	*Alston, Albert*	*Filey, Yorkshire*	*£1*	*5,000*	*5,000*	*0*	*0*	*5,000*	*0*	*0*
2	3	*Browning, George*	*368 Fleet Street, London, E C*	*£1*	*800*	*800*	*0*	*0*	*800*	*0*	*0*
3	4	*Customs, Charles*	*The Firs, Strabane, Ireland*	*£1*	*1,000*	*1,000*	*0*	*0*	*1,000*	*0*	*0*
		Etc.	*Etc*		*Etc*						

(Signature) *Robert Allways.*
Dated *February 8*, 19 ..

LIST O (2).—DEFICIENCY ACCOUNT.

(2) Deficiency Account where Winding-up Order made MORE THAN THREE YEARS AFTER formation of Company.

	£	s.	d.
I. Excess of Assets over Capital and Liabilities on the * day of 19 (if any) as per Company's Balance Sheet annexed			
II. Gross profit (if any) arising from carrying on business from the (*) *1st* day of *January*, 19.., to date of Winding-up Order as per Trading Account annexed	*2,882*	*0*	*0*
III. Receipts (if any) during same period from undermentioned sources :—			
Interest on Loans			
Interest on Deposits			
Transfer Fees	*38*	*0*	*0*
Amounts paid on Shares issued and subsequently forfeited (as per list annexed)			
IV. Other Receipts (if any) during same period not included under any of the above headings			
Profit on Sale of Investment (19..)	*250*	*0*	*0*
V. Deficiency as per Statement of Affairs (Part II)	*64,500*	*0*	*0*
Total amount to be accounted for . .. (*)	*£67,670*	*0*	*0*

	Amount Discharged £	s.	d.	Due at date of Winding-up Order £	s.	d.	£	s.	d.
I Excess of Capital and Liabilities over Assets on the * day of 19 (if any), as per Company's Balance Sheet annexed									
II. Expenses of carrying on business from the * day of 19 to date of Winding-up Order, viz —									
Salaries	*5,870*	*0*	*0*	*100*	*0*	*0*	*5,970*	*0*	*0*
Wages not charged in Trading Account .. .	*11,130*	*0*	*0*	*160*	*0*	*0*	*11,290*	*0*	*0*
Rent *of City Office*	*450*	*0*	*0*				*450*	*0*	*0*
Rates and Taxes	*1,111*	*0*	*0*	*22*	*0*	*0*	*1,133*	*0*	*0*
Law Costs	*1,151*	*0*	*0*				*1,151*	*0*	*0*
Commission	*108*	*0*	*0*				*108*	*0*	*0*
Interest on Loans	*356*	*0*	*0*				*356*	*0*	*0*
Interest on Debentures ..	*750*	*0*	*0*				*750*	*0*	*0*
Miscellaneous Expenditure (as per details annexed)	*2,017*	*0*	*0*				*2,017*	*0*	*0*
£	*22,943*	*0*	*0*	*£282*	*0*	*0*			
III. Directors' Fees from the * *1st* day of *January*, 19.., to date of Winding up Order							*900*	*0*	*0*
IV Dividends declared during the same period									
V Losses and Depreciation from the * *1st* day of *January*, 19 ., written off in Company's books, viz. † :—									
Bad Debts							*1,775*	*0*	*0*
Losses on Investments									
Depreciation of Property							*2,770*	*0*	*0*
Preliminary Expenses							*5,000*	*0*	*0*
VI. Losses and Depreciation not written off in Company's Books, now written off by Directors, viz. (†) —									
Bad Debts							*1,500*	*0*	*0*
Losses on Investments							*500*	*0*	*0*
Depreciation of Property { *Stock* £7,500; *Freehold,* 2,500; *Patents,* 9,000; *Plant,* 13,000 } =							*32,000*	*0*	*0*
Preliminary Expenses									
VII Other Losses and Expenses †									
Total amount accounted for .. .. .. ‡							*£67,670*	*0*	*0*

* Three years before date of Winding-up Order.
† Where particulars are numerous they should be inserted in a separate Schedule.
‡ These figures should agree.

(Signature) *Robert Allways.*
Dated *February* 8, 19...

13. State carefully the effect of the winding up of a company on proceedings against the company. (*Incorporated Accountants.*)

14. In a winding up by the Court the Liquidator proposes to carry on the business of the company. Can he do so, and what powers have creditors to prevent him if they object? (*Central Association Accountants.*)

15. In a winding up by the Court, what is the immediate effect of the winding-up order on the property and assets of the company, and into whose hands does it pass? (*Central Association Accountants.*)

16. In a winding up by the Court, upon the making of a winding-up order, what meetings of creditors and contributories must be called by the Liquidator and what matters are there discussed? (*Central Association Accountants.*)

17. In a winding up by the Court, explain the term "provisional liquidator," and state what is his relation to the company's creditors upon the making of a winding-up order. (*Central Association Accountants.*)

18. State shortly the provisions of the Companies Act, 1929, with regard to the public examination of directors and other officers of a company. (*Incorporated Accountants.*)

19. A creditor of the Beehive Company, Ltd., has presented a petition for the winding up of the company on the ground that the company was unable to pay its debts. It is opposed by shareholders of the company. What order should the Court make? How would it affect your answer if the petitioner was not a creditor but a shareholder of the company? (*Central Association Accountants.*)

20. Under what circumstances may a special manager be appointed in a compulsory winding up, and who appoints him? (*Chartered Accountants.*)

21. Contrast the position of a Liquidator with that of a trustee in bankruptcy. What is a provisional Liquidator? (*Incorporated Accountants.*)

22. What rules are applicable to the providing of security by (*a*) a Liquidator in Compulsory Liquidation; (*b*) a Liquidator in Voluntary Liquidation? (*Chartered Accountants.*)

23. What are the powers of a Liquidator, and how do they vary in (*a*) a Compulsory Liquidation; (*b*) a Liquidation under the supervision of the Court; (*c*) a Voluntary Liquidation? (*Chartered Accountants.*)

24. In a Compulsory Liquidation, what steps must be taken by the Liquidator to make good his appointment and to satisfy the Board of Trade before he can act as Liquidator? How is his appointment brought to public notice? (*Central Association Accountants.*)

25. In a winding up by the Court, the Liquidator desires to employ a solicitor in connection with the sale of property belonging to the company. Can he do so, and what sanction is necessary? What risk does he run if he acts on his own responsibility? (*Central Association Accountants.*)

26. In a winding up by the Court, what is meant by the Committee of Inspection, and of whom may it be composed? (*Central Association Accountants.*)

27. What powers, if any, has a Liquidator of a company in a Compulsory Liquidation to remunerate the members of the Committee of Inspection? (*Chartered Accountants.*)

28. What control has (*a*) the Committee of Inspection, (*b*) the Court, over the power of the Liquidator to make calls? (*Central Association Accountants.*)

29. In what circumstances may application be made to the Court for the rectification of the register of members of a company? Who may make the application, and what procedure may be adopted for the purpose in the case of a company registered in England? (*Chartered Accountants.*)

30. How is a "contributory" defined, and who is included within the term? May a contributory petition to wind up a company? State what you know on the subject. (*Incorporated Accountants.*)

31. What is meant by the term "A" and "B" lists of contributories, and describe the rights and liabilities of each class in case of Compulsory Liquidation? *(Chartered Accountants.)*

32. In what manner, and by whom, are the lists of contributories settled: (1) In a winding up under the Court; (2) in a Voluntary Liquidation? *(Chartered Accountants.)*

33. What are the rights of a Liquidator as to making calls? How would the Liquidator be able to compel the payment of calls? *(Incorporated Accountants.)*

34. In a winding up by the Court, the £1 "B" shares in the Oilwell Company (in Liquidation) are paid up to the extent of 15s. The Liquidator proposes to make a call of 2s. 6d. What steps must he take before doing so? *(Central Association Accountants.)*

35. A company being wound up compulsorily, what is the course to be followed by a Liquidator in making a call (*a*) if there be a Committee of Inspection; (*b*) if there be no Committee? *(Chartered Accountants.)*

36. In a winding up under the Companies (Consolidation) Act, 1908, who has power to admit and reject proofs? If a proof has been admitted how can it afterwards be set aside? *(Chartered Accountants.)*

37. How must a creditor prove his debt in the winding up of a company? *(Chartered Institute Secretaries.)*

38. What debts are and what debts are not provable in the winding up of an insolvent company? *(Incorporated Accountants.)*

39. Describe the regulations which apply to the admission and rejection of proofs of debt by the Liquidator in a compulsory winding up? *(Chartered Accountants.)*

40 What right of compromise has a Liquidator (*a*) in a Compulsory Liquidation; (*b*) in a Voluntary Liquidation? *(Chartered Accountants.)*

41. In a winding up by the Court, what powers has the Liquidator to sell the property of the company (*a*) for cash, (*b*) for shares in another company? *(Central Association Accountants.)*

42. How is a Liquidator to ascertain the liabilities of a company and to get the time for making claims limited? When he is not satisfied with the validity of a claim, what courses are open to him? *(Incorporated Accountants.)*

43. What is the order of payment of the creditors, both secured and unsecured, in the winding up of an insolvent company? *(Royal Society Arts.)*

44. What steps must a Liquidator in a Compulsory Liquidation take before paying a final dividend? How does he obtain his discharge? *(Chartered Accountants.)*

45. In a compulsory winding up, by whom and upon what basis is the remuneration of a Liquidator to be fixed? When and how may he procure his release and discharge, and at the end of the liquidation how are the books and documents of the company to be disposed of? *(Incorporated Accountants.)*

46. State the books and accounts to be kept by a Liquidator in a winding up by the Court, and by whom, and under what circumstances, they can be inspected. *(Chartered Accountants.)*

47. Explain the nature and contents of the Cash Book and Record Book kept by the Liquidator. How does the Cash Book show the Trading Accounts of the company if the business of the company is not yet wound up? *(Central Association Accountants.)*

48. What authority and duty have the Committee of Inspection with regard to the books to be kept by the Liquidator, and the audit of his accounts? *(Incorporated Accountants.)*

49. In a winding up by order of the Court, what are the duties of the liquidator as to moneys received by him in the course of the liquidation? Can he pay such moneys into his private banking account? *(Incorporated Accountants.)*

50. What has a Liquidator in a winding up by the Court to enter in a Record Book? To whom and when has this book to be submitted? *(Chartered Accountants.)*

51. Where the business of a company is being carried on the Liquidator must keep a separate Trading Account. What provision is made by statute for its inspection? *(Central Association Accountants.)*

52. Describe the different methods of passing the accounts of a Liquidator in (*a*) a Compulsory Liquidation; (*b*) a Voluntary Liquidation, (*c*) a liquidation under supervision of the Court. *(Chartered Accountants.)*

53. When may a Liquidator in a winding up by the Court apply for an order of release? To whom must be make such application, and what is the effect of such order when obtained? *(Incorporated Accountants.)*

54. State the duty of the Liquidator as to (*a*) making calls; (*b*) entering into compromises; (*c*) the treatment of preferential claims; (*d*) the ultimate disposal of the books of his company *(Incorporated Accountants.)*

55. State very briefly the effect of an order for the continuance of the voluntary winding up of a company under the supervision of the Court. *(Chartered Accountants.)*

56. In what circumstances may a company be wound up voluntarily? At what time is such a winding up deemed to commence, and what consequences ensue thereon? *(Incorporated Accountants.)*

57. Describe and discuss briefly the proceedings on a voluntary winding up. *(Royal Society Arts.)*

58. The shareholders of the Steel Wire Company, Ltd., desire to wind up voluntarily. What form of resolution is necessary (*a*) if the company is solvent; (*b*) if it is insolvent? *(Central Association Accountants)*

59. In the course of a voluntary winding up what meetings must, and what may, be summoned by the Liquidator, and what matters have to be dealt with at the final meeting of the company? *(Incorporated Accountants.)*

60. In a voluntary winding up, within what time must the Liquidator (*a*) give notice of his appointment to the Board of Trade; (*b*) call a meeting of the creditors? What have the creditors to determine at such meeting with reference to the Liquidator's appointment? *(Incorporated Accountants.)*

61. State briefly the powers which may be exercised, in a Voluntary Liquidation, by the (*a*) members of the company; (*b*) creditors of the company; (*c*) Liquidator of the company? *(Incorporated Accountants.)*

62. In a voluntary winding up, how does the Liquidator's position differ from that in a winding up by the Court, as regards (*a*) giving security; (*b*) summoning meetings of creditors? *(Central Association Accountants)*

63. In a voluntary winding up. (*a*) in what respects does a Liquidator incur personal liability; (*b*) for what purposes may he apply to the Court; and (*c*) when, how, and from whom may he get his release? *(Incorporated Accountants.)*

64. In a voluntary winding up what things have to be done at the first and final meetings respectively of creditors? For what purposes are special meetings of creditors required to be summoned? *(Incorporated Accountants.)*

65. How does (1) a winding-up order, or (2) a resolution to wind up a company voluntarily, affect any action by or against such company? *(Chartered Accountants)*

66. For what purposes may calls be made in a voluntary winding up? What remedies are available to a Liquidator for the non-payment of a call in a voluntary winding up? *(Chartered Accountants.)*

67. In a Voluntary Liquidation the Liquidator makes a call upon the contributories. What steps must he take, and does the procedure differ from the procedure of a Liquidator in a Compulsory Liquidation? If so in what way? *(Chartered Accountants.)*

68. In a voluntary winding up, in what order should the Liquidator pay the following debts: (*a*) costs of the winding up; (*b*) merchant's claim for material supplied; (*c*) workman's wages; (*d*) Liquidator's remuneration? *(Central Association Accountants.)*

69. In a winding up by the Court, what preferential payments must be made by the Liquidator in priority to all other debts ? *(Incorporated Accountants.)*

70. A newspaper company is in liquidation. To what extent are the following entitled to priority in payment : (*a*) £60 salary due to A as director's fees ; (*b*) £60 salary due to B as editor of the newspaper ; (*c*) £10 due to C as compositor ? *(Central Association Accountants.)*

71. To what extent, if at all, is a Liquidator in a voluntary winding up entitled to (i) make compromises ; (ii) carry on the business of the company ; (iii) pay the claims of certain creditors in full ; (iv) accept shares in another company as consideration for the sale of the company's property to such other company ? *(Incorporated Accountants.)*

72. What power, if any, has a Liquidator to accept shares in consideration of the sale of property of a company ? Discuss the position of a shareholder in the transferor company with reference to such sale. *(Incorporated Accountants.)*

73. A limited company passes resolutions for voluntary winding up, and empowers the Liquidator to sell the whole of the assets to another company for a consideration other than cash. One of the shareholders who is not in favour of the sale abstains from voting at either of the meetings. What rights has the shareholder as regards his own interest, and what is the Liquidator's duty should they be exercised ? *(Chartered Accountants.)*

74. In a voluntary winding up, the Liquidator has entered into an arrangement with the company's creditors. What steps must he take to make the arrangement binding alike on the company and on all the creditors ? *(Central Association Accountants.)*

75. In a voluntary winding up, how is the Liquidator protected from claims by creditors after he has distributed the assets ? *(Central Association Accountants.)*

76. In a voluntary winding up, how and when should the Liquidator pay dividends to (*a*) creditors ; (*b*) contributories ? *(Incorporated Accountants.)*

77. In any winding up, how is a creditor to submit and prove his claim, and, in a voluntary winding up, what are the powers and duties of the Liquidator as to the admission and rejection of proofs ? *(Incorporated Accountants.)*

78. Has a creditor any, and if so, what, right of set-off in a Voluntary Liquidation ? *(Chartered Accountants.)*

79. In a voluntary winding up, what accounts must be rendered by the Liquidator. How far are (*a*) creditors, (*b*) contributories entitled to inspect these accounts ? *(Incorporated Accountants.)*

80. Under what circumstances must a Liquidator in a voluntary winding up pay moneys into the Companies Liquidation Account ? *(Chartered Accountants.)*

81. If a Voluntary Liquidator concludes the liquidation ten months after his appointment, is he liable to file accounts ? Give reasons. *(Chartered Accountants)*

82. What are the prescribed particulars contained in the Statement, which a Liquidator is required to send to the Registrar of Companies, if the winding up is not concluded within one year after its commencement ? *(Chartered Accountants.)*

83. In a voluntary winding up a year ago, Smith was appointed Voluntary Liquidator of the Palm Oil Company, Ltd. What steps should he take to inform the company of the progress of the liquidation ? *(Central Association Accountants.)*

84. Prepare a *pro forma* statement to be submitted by the Liquidator to the final meeting of shareholders in a Voluntary Liquidation. How is this meeting directed to be called in the Companies Act, 1929? *(Chartered Accountants.)*

85. Appointed a Liquidator in a Voluntary Liquidation, no mention is made in the resolution as to your remuneration. How and when should this be fixed? (*Chartered Accountants.*)

86. When may a Liquidator be removed from his office? (*Royal Society Arts.*)

87. If by death or resignation any vacancy occurs in the office of Liquidator, in what manner may such vacancy be filled up?

Can a Liquidator be removed from his office, and, if so, in what manner? (*Incorporated Accountants.*)

88. In a voluntary winding up, what business is usually transacted at the final meeting of the company? How is it summoned, and what return of the proceedings must be made to the Registrar of Companies? (*Central Association Accountants.*)

89. In a voluntary winding up, where a final general meeting has been called, as prescribed by the Act, how is authority obtained to dispose of the books and papers? (*Chartered Accountants.*)

90. After all the creditors have been paid in full, how is the Liquidator to deal with any surplus, particularly (*a*) as concerns the contributories; (*b*) as concerns the holders of partly-paid preference shares, where there is no priority in respect of the repayment of capital? How is a trustee in bankruptcy to treat a surplus? (*Incorporated Accountants.*)

91. You are Liquidator in a Compulsory Liquidation, and after payment of all costs and discharging all liabilities you have £100,000 for distribution.

The share capital consists of £1,000,000 Ordinary Shares of £1 each which were fully paid in cash, and £1,000,000 Ordinary Shares of £1 each issued for 10s. each as fully paid by authority of a special resolution of the company.

How would you complete your distribution? State your reasons. (*Chartered Accountants.*)

92. John Smith, Liquidator of T. B. & Co., Ltd., in Voluntary Liquidation, having paid all the creditors in full, with all interest due, finds he has a surplus in hand. How will the Liquidator deal with this surplus? The Statement of Affairs disclosed the following facts: 10,000 7 % Cumulative Preference Shares of £1 each, fully paid (having a preference as to capital and dividend); 5,000 6 % Second (Non-cumulative) Preference Shares of £1 each, fully paid (having a preference as to capital); 20,000 Ordinary Shares of £1 each, 10s. paid (*Chartered Accountants.*)

93. The following is the Balance Sheet of the Alpha Trading Company, Ltd., as on December 31, 19.. .—

LIABILITIES.	£	ASSETS.	£
Capital—		Land and Buildings ..	100,000
120,000 shares of £1 each, fully paid ..	120,000	Machinery and Plant ..	40,000
Sundry Creditors	30,000	Stock-in-Trade..	15,000
Bank Overdraft	26,000	Sundry Debtors	20,000
		Profit and Loss Account..	1,000
	£176,000		£176,000

The company went into liquidation, and the assets were sold to the Delta Company, Ltd., for £147,000, payable as to £57,000 in cash (which sufficed to discharge the creditors and the Bank and pay the costs of winding up—£1,000) and as to £90,000 by the allotment of 120,000 £1 shares of the Delta Company, Ltd., 15s. paid, to the shareholders of the Alpha Trading Company, Ltd.

Close the books of the Alpha Trading Company, Ltd., and give the necessary entries for recording the transactions in the books of the Delta Company, Ltd. (*Chartered Accountants.*)

94. A limited company goes into Voluntary Liquidation on December 31, 19.., having assets appearing in the books as follows: Works and other properties, £90,000; Liquid Assets, £10,000.

Its liabilities are £20,000, and its capital (paid up) £100,000 The assets are sold to a new company for £50,000, payable in shares of that company,

of £1 each, credited with 15s. per share paid up, and £22,000 in cash, which latter just suffices to pay the liabilities and costs of liquidation. Close the books of the company in liquidation. (*Chartered Accountants.*)

95. From the following particulars prepare, in the prescribed form, a Statement of Affairs of the X Y Co., Ltd., in liquidation.

The capital of the Company consisted of 20,000 Ordinary Shares of £1 each, 15s. per share called up; and of this amount calls to the extent of £200 are in arrear.

Debtors: Good, £5,000; Doubtful, £3,000, estimated to produce £1,500; Bad, £600; Stock-in-Trade, £7,000, estimated to produce £5,500; Freehold Buildings, Fixed Plant, etc., estimated value, £10,000; Fully Secured Creditor (holding Mortgage on Buildings, Plant, etc.), £6,000; Partly Secured Creditors (estimated value of Securities held, £1,500), £4,000; Bills Receivable (all good), £600; Bank Overdraft, £100; Cash in hand, £20, Managing-Director's Salary (three months) unpaid, £200; Liability on Bills discounted, £500, expected to rank, £250; Weekly Wages unpaid, £100; 400 Unsecured Creditors, £15,000; Calls in arrear, £200, estimated to produce £100. (*Chartered Accountants.*)

96. The Liquidator of the Western Land Company, Ltd., had for distribution between preference and ordinary shares an available surplus, which, after payment of all costs, proved to be £215,809 3s. 4d. The share capital consisted of 25,000 Cumulative Preference Shares of £5 each, and 25,000 Ordinary Shares of 1s. each. No arrears of dividend were payable on the preference shares at the date of the liquidation, but they were entitled to interest at 5 % per annum from the commencement of the winding up until payment—a period of eleven months. On applying to the Court, the Liquidator was directed that the surplus assets must be distributed rateably between the preference and the ordinary shareholders according to the nominal amount of their shares, each preference share being entitled to 100 times the amount payable on each ordinary share.

Prepare a Distribution Account, and show the respective dividends per share payable on both classes of shares; fractions of a penny may be ignored. (*Chartered Accountants.*)

97. The following particulars were extracted from the books of the Loamshire Farming Company, Ltd, on January 31, 19.., on which day a winding-up order was made: Ordinary Share Capital, 20,000 shares of £1 each, 10s. paid up, £10,000; 6 % Preference Share Capital, 20,000 shares of £1 each, fully paid, £20,000; 5 % First Mortgage Debentures, secured by a floating charge upon the whole of the Assets of the Company, exclusive of uncalled Capital, £15,000; Fully Secured Creditors (value of securities, £3,500), £3,000; Partly Secured Creditors (value of securities, £1,000), £2,000; Preferential Creditors for Rates, Taxes, Wages, etc., £600; Bills Payable, £10,000; Unsecured Creditors, £7,000; Union Bank, Ltd, Overdraft, £1,000; Bills Receivable: in hand, £1,500; discounted (one Bill for £1,000 known to be bad), £4,000; Book Debts: Good, £1,000; Doubtful (estimated to produce 10s. in the £1), £700; Bad, £600; Land and Buildings (estimated to produce £10,000), £15,000; Stock-in-Trade (estimated to produce £4,000), £5,000; Machinery, Tools, etc. (estimated to produce £200), £500; Cash in hand, £10.

Make out a Statement of Affairs (1) as regards creditors, and (2) as regards contributories. (*Chartered Accountants.*)

98. A limited company traded successfully for some years, and always up to and including the twelve months ending June 30, 19... paid dividends of 6 % per annum on its whole capital of £20,000, all originally issued, and consisting half of ordinary shares and half of preference shares, entitled to a fixed cumulative preference dividend of 6 %, but not expressed to be preferential as to capital. The directors, under their powers, entered into a contract for sale of the assets (including the goodwill, which had never been valued) as they stood at June 30 following.

The company went into Voluntary Liquidation on June 30, 19.., and a Balance Sheet, struck at that date, showed the following figures :—

DR.	£	£		CR. £
Capital—			Property Account	15,000
6 % Preference Shares fully paid	10,000		Stock	7,000
Ordinary Shares fully paid	10,000		Sundry Debtors	15,000
		20,000	Cash	3,000
Sundry Creditors		4,500		
General Reserve— Unappropriated and set aside out of Profits		7,500		
Profit and Loss Account— Balance brought forward at June 30th last	4,400			
Less Dividends for 12 months, ending June 30th last	1,200			
	3,200			
Add Profit for 12 months ending June 30, 19..	4,800			
		8,000		
		£40,000		£40,000

After completion of sale, payment of debts, and provision for expenses of liquidation, there is available for distribution a net sum of £50,000.

How should the Liquidator distribute this sum ? (*Chartered Accountants.*)

99. A limited company, having carried out its business objects, went into Voluntary Liquidation with the following liabilities · Trade Creditors, £12,000 ; Bank Overdraft, £20,000 ; Capital (Preference Shares, 10,000 of £10, £7 called), £70,000 ; Ordinary Shares (10,000 of £10, £9 called), £90,000, less calls in arrear, £2,000, £88,000 ; Cash received from shareholders in anticipation of calls, on preference shares, £24,000, on ordinary shares, £4,000

The assets realised £200,000. Describe the Liquidator's process of winding up, and prepare a general liquidation account, allowing £2,000 as the expenses of the liquidation.

NOTE —No interest need be brought into account. The preference shares have no prior capital rights. (*Chartered Accountants.*)

100. The Balance Sheet of the Trading Company, Ltd , at September 30, 1914, was as follows :—

LIABILITIES.	£	£	ASSETS.	£
To Share Capital issued—			By Plant	1,500
500 Ordinary Shares of £5 each, fully paid	2,500		" Sundry Debtors	1,200
500 Ordinary Shares of £5 each, £3 per Share paid up	1,500		" Stock	1,000
		4,000	" Profit and Loss Account— Loss to date	4,300
" Bank overdraft (secured by Mortgage Debentures for £1,000)		500		
" Sundry Creditors		3,500		
		£8,000		£8,000

The company, having decided to go into voluntary liquidation, appoint you Liquidator. You sell the Plant for £1,200 ; collect the Book Debts, which realise £1,000 ; and dispose of the Stock for £750 ; the company's bankers, who hold the debenture for £1,000, having agreed to leave the realisation of the assets in your hands. You ascertain that there is a deficiency of assets to meet claims of creditors, and you make a call on those shareholders who are liable as contributories. On March 31, 1915, having realised all the assets and received payment in full of the call made upon contributories, you proceed to distribute the funds in your hands as Liquidator. The creditors include £100 Rates for the half-year ending September 30, 1914 , £200 Wages and Salaries of Employees for September, 1914 , and the costs of the liquidation, including your remuneration, amount to £500. Prepare, for issue to creditors and contributories, a statement of your receipts and payments as Liquidator, showing how you would distribute the funds in your hands on March 31, 1915, and the amount of dividend in the £ to unsecured creditors. Interest accrued on bank overdraft to date, when it was paid off, amounted to £50. (*Chartered Accountants.*)

101. The following is a Statement of Liabilities and Assets of the A Company, Ltd., which is in the hands of a Receiver and Manager and Liquidator :—

STATEMENT OF LIABILITIES AND ASSETS.

	£		£
Capital issued—		Freehold Property	100,000
150,000 6 % Preference Shares of £1 each, fully paid	150,000	Leasehold Property ..	50,000
300,000 Ordinary Shares of £1 each, fully paid	300,000	Stock	150,000
4½ % Mortgage Debentures	100,000	Debtors, estimated to produce	230,000
Trade Creditors (unsecured)	150,000	Investments valued at ..	70,000
Loan Creditors, secured by charge on Investments	50,000		600,000
		Deficiency..	150,000
	£750,000		£750,000

The profits of the Company are estimated to exceed £50,000 per annum.

The investments are trade investments, which cannot be realised without detriment to the business, and the creditors holding them as security require to be paid off in cash.

The Trade Creditors, £150,000 (the preferential creditors having run off), agree to take 10s in the £1 in cash and the balance in fully paid shares in a reconstructed company.

Cash working capital to the amount of £18,500 is considered sufficient.

Cash has to be provided by the reconstructed company to meet the following expenditure: Formation Expenses of the new company, £3,500, Costs, £1,000; Remuneration of Receiver and Manager and Liquidator, £2,000.

Show the method by which you would recommend that a scheme of reconstruction should be framed involving the raising of the necessary cash, and submit the Balance Sheet of the reconstructed company after your views have been given effect to. (*Chartered Accountants.*)

102. A Welsh mining company goes into Voluntary Liquidation with Trade Liabilities, £1,200; Cash Liabilities, £1,050; Rent owing, £75; Wages and Rates, £56; Debentures, £2,000. On the debentures six months' interest at 6 % per annum was due. After a lapse of six months, the leasehold property, etc., are sold for £3,600, and some small rents have come in amounting to £27 10s, whilst a minimum rent of leasehold at £150 per annum has been growing due since the date of winding up. Make up the Liquidator's account, allowing £45 3s. 6d. for law costs and outlays and for Liquidator's remuneration, 3 % on realisation and 2 % on distribution to unsecured creditors, and show the dividend payable. (*Chartered Accountants*).

103. Prepare the Distribution Account in a Voluntary Liquidation from the following: Ordinary Share Capital, £30,000; 5 % Cumulative Preference (as to Capital) Shares, £20,000, Debentures (secured by a charge on the assets and undertaking), £10,000 at 4 %. The Liquidator is also receiver for the debenture holders. No interest was paid for the six months prior to the date of the liquidation on the preference capital nor on the debenture debt. The assets, including the goodwill, sold for £32,500 The liabilities, in addition to the debentures, are: Trade Creditors, £6,000; Cash Creditors, £1,500; Wages and Rates, £725; Acceptances of the Company, £2,000. The Liquidator's remuneration is fixed at 5 % upon the total realisation of the assets. The law costs are £450. (*Chartered Accountants.*)

CHAPTER VIII

Joint Stock Companies—V

The Financial History of a Limited Company.

Formation.—The Realistic Picture Palaces, Ltd., was incorporated on January 1, 1931, to acquire and operate picture palaces.

The nominal capital of the Company was fixed at £170,000 in 100,000 Ordinary Shares of £1 each and 70,000 Preference Shares of £1 each. The latter carried priority over the ordinary shares as regards capital, and were entitled to a cumulative preferential dividend of $6\frac{1}{2}$ % per annum

Purchase Contract.—The Company acquired from the Vendor (The Palaces Incorporation Syndicate, Ltd) the Eastwell and Westhorpe Cinematograph Theatres The purchase price was agreed at £30,000, payable as to £15,000 in cash and as to £15,000 in fully paid ordinary shares of £1 each taken at par. The promoters undertook to defray all the preliminary expenses incurred to the date of allotment, except that a contribution of £500 was to be made by the Company towards the stamp duty on the Company's registered capital and the duty payable upon the purchase agreement. The purchase price was allocated as to £12,000 as representing the cost of the Eastwell Theatre, and as to £18,000 as representing the cost of the Westhorpe Theatre.

Issue and Allotment of Shares.—On January 3, 1931, the Company offered for public subscription 24,993 £1 Ordinary Shares at par, payable 5s. per share on application, 10s. per share on allotment, and 5s. per share one month after allotment. The minimum subscription was fixed at 20,000 shares. The seven £1 Ordinary Shares subscribed by the signatories to the Memorandum of Association were subscribed on the same terms, and the total number of shares issued was therefore 25,000.

The public applied for 30,000 shares in response to the advertisement of the issue, and 24,993 shares were duly allotted—the seven £1 shares taken by the signatories not needing formal allotment. The excess application deposits, which arose owing to the reduced allotments, were applied in part payment of the instalments due on allotment.

All sums payable by applicants under the terms of the issue were duly received by the Company as and when they became due.

Completion of Purchase.—On January 8, 1931, the purchase of the two theatres was duly completed by the payment of £15,000 in cash to the vendors, and by the allotment to them of 15,000 fully paid ordinary shares.

Minutes.—The understated extracts from the Directors' Minute Book embody the foregoing transactions:—

January 2, 1931.

RESOLVED that the prospectus dated this day and signed in duplicate by all the directors of the Company, and offering for public subscription 24,993 £1 Ordinary Shares at par, be approved, and that the secretary be instructed to advertise and issue it, previously delivering the necessary signed copy to the Registrar of Companies for registration.

January 6, 1931.

The secretary reported that subscriptions for 30,000 £1 Ordinary Shares had been received from the public—the minimum subscription named in the prospectus being 20,000 shares.

RESOLVED that the number of £1 Ordinary Shares appearing in the allotment column against the name of each applicant in the Application and Allotment Sheets submitted to the Board and signed for identification by the chairman, be and are hereby allotted to such applicant, the total number of ordinary shares thus allotted being 24,993, and their distinctive numbers 8 to 25000 inclusive.

RESOLVED that the secretary be instructed to issue a letter of allotment to each such allottee of shares.

January 10, 1931.

Certificate to Commence Business.—The Secretary reported that he had duly made and filed with the Registrar of Companies the Statutory Declaration required under S. 94 (1), and submitted the certificate granted by the Registrar entitling the Company to commence business

RESOLVED that the common seal of the Company be affixed to a purchase agreement dated this day, made between the Company and the Palaces Incorporation Syndicate, Ltd., whereby the Company agrees to purchase from the Palaces Incorporation Syndicate, Ltd., the Eastwell Theatre at a price of £12,000 and the Westhorpe Theatre at a price of £18,000, the total purchase price thereby agreed (30,000) to be satisfied as to £15,000 in cash, and as to the balance by the allotment of 15,000 of the Company's £1 Ordinary Shares credited as fully paid up.

RESOLVED that a cheque for £15,000 be drawn in favour of and handed to the Palaces Incorporation Syndicate, Ltd., in discharge of that part of the purchase consideration of the Eastwell and Westhorpe Theatres which was payable in cash, and that 15,000 fully paid ordinary shares of £1 each, numbered from 25,001 to 40,000 inclusive, be and they are hereby allotted to the Palaces Incorporation Syndicate, Ltd , in discharge of the balance of the purchase consideration.

RESOLVED that a cheque for £500, being the agreed proportion of the stamp duties payable by the Company under the purchase agreement, be drawn and handed to the Vendors, the amount being debited in the Company's books to the preliminary expenses account.

The entries recording the foregoing transactions were as follows:—

CASH BOOK.

Dr										Cr.	
1931.			£	s	d	1931			£	s.	d.
Jan 3	To Ordinary Shares Application and Allotment Account, 5s per share on 30,000 £1 Ordinary Shares (including 7 signatories' shares) applied for in terms of Prospectus dated January 2, 1931	L	7,500	0	0	Jan. 10	By Palaces Incorporation Syndicate, Ltd (Vendors), part purchase consideration payable in cash . .	L	15,000	0	0
„ 7	„ Ordinary Shares Application and Allotment Account, Balance due on allotment of 24,993 £1 shares and on 7 signatories' shares making them 15s per share paid	L.	11,250	0	0	„ 10	„ Preliminary Expenses Account, proportion of stamp duties refunded by Company to the Vendors as per purchase agreement	L	500	0	0
Feb. 5	„ Ordinary Shares First Call Account, for 5s per share received on 25,000 shares . .	L.	6,250	0	0						

Note—As described in Chapter V, full details of the above amounts would appear in the Subsidiary Cash Books—the totals only being transferred to the main Cash Book as shown above.

JOURNAL.

			£	s.	d.	£	s.	d
1931. Jan 6	Ordinary Shares Application and Allotment Account .. Dr.	L.	18,750	0	0			
	To Ordinary Share Capital Account .	L				18,750	0	0
	Being 5s per share payable on application and 10s per share due on allotment on 25,000 £1 Ordinary Shares allotted this day (including 7 signatories' shares)							
„ 10	Sundries Dr							
	To Palaces Incorporation Syndicate, Ltd. (Vendors), viz :—	L				30,000	0	0
	Eastwell Theatre Account . . .	L	12,000	0	0			
	Westhorpe Theatre Account .	L	18,000	0	0			
	Being agreed purchase price of above theatres as per purchase agreement dated January 8, 1931							
„ 8	Palaces Incorporation Syndicate, Ltd. (Vendors) . . Dr.	L	15,000	0	0			
	To Ordinary Share Capital .. .	L				15,000	0	0
	Being 15,000 £1 Ordinary Shares issued as fully paid in part satisfaction of the purchase price of the theatres.							
Feb 5	Ordinary Shares First Call Account .. Dr.		6,250	0	0			
	To Ordinary Share Capital					6,250	0	0
	Being First and Final Call of 5s per share due this day on 25,000 Ordinary Shares issued to the public							
			£70,000	0	0	£70,000	0	0

LEDGER.

Ordinary Share Capital Account.

Dr.			£	s.	d.	Cr.			£	s.	d.
1931. Feb 5	To Balance carried down .. .	J	40,000	0	0	1931 Jan 6	By 15s per share on 25,000 £1 Ordinary Shares allotted this day	J	18,750	0	0
						" 10	" 15,000 fully paid shares issued to Vendors ..	J	15,000	0	0
						Feb. 5	" First Call of 5s. per share due on 25,000 shares issued to the public	J	6,250	0	0
		£	40,000	0	0			£	40,000	0	0
						1931. Feb. 5	By Balance brought down (40,000 £1 shares fully paid)	J.	40,000	0	0

Ordinary Shares Application and Allotment Account.

Dr.			£	s.	d.	Cr.			£	s.	d.
1931. Jan. 6	To 15s. per share due on application and allotment on 25,000 £1 Ordinary Shares	J.	18,750	0	0	1931. Jan 3	By Cash, 5s on application for 30,000 shares applied for .	C.B	7,500	0	0
						" 7	" Cash, amounts due on allotment of 25,000 £1 shares .. .	C B	11,250	0	0
		£	18,750	0	0			£	18,750	0	0

Ordinary Shares. First Call Account.

Dr.			£	s	d	Cr			£	s	d
1931. Feb 5	To Ordinary Share Capital Account, Call of 5s. per share due on 25,000 shares issued for cash	J	6,250	0	0	1931 Feb 5	By Cash	C B	6,250	0	0

Palaces Incorporation Syndicate, Ltd., Vendors.

Dr.			£	s.	d.	Cr.			£	s	d.
1931. Jan.10	To Ordinary Share Capital Account, 15,000 fully paid £1 shares issued in part settlement of purchase price ..	J	15,000	0	0	1931. Jan 10	By Purchase price of Eastwell and Westhorpe Theatres ..	J.	30,000	0	0
" 10	" Cash	C.B.	15,000	0	0						
		£	30,000	0	0			£	30,000	0	0

Eastwell Theatre Account.

Dr.			£	s.	d	Cr.			£	s.	d.
1931. Jan.10	To Purchase price of Theatre .	J.	12,000	0	0						

WESTHORPE THEATRE ACCOUNT.

DR.			£	s.	d.				£	s.	d. CR.
1931. Jan. 10	To Purchase price of Theatre .	J	18,000	0	0						

PRELIMINARY EXPENSES ACCOUNT.

DR.			£	s.	d.				£	s.	d. CR.
1931 Jan. 10	To Cash paid to Vendors for proportion of stamp duties upon incorporation as per purchase agreement ..	C B	500	0	0						

Statutory Meeting.—The Directors' Report to the Statutory Meeting was made up to February 17, 1931, and was circulated on that date. The trading receipts for the period from the incorporation of the Company to February 17, 1931, were £7,126 4s. 1d.; the trading payments were £5,022 1s. 11d., and the cash balance was £11,604 2s. 2d.

The Report was as given at pp. 482–3.

Trading Results.—During the early part of 1931 the Company's two theatres proved very profitable, and a Profit and Loss Account prepared for the private information of the Board for the half-year ended June 30, 1931, showed a profit of £6,000. Upon the strength of these results the directors declared an interim dividend of 2s. per ordinary share free of tax for the half-year. The amount absorbed by the dividend was £4,000.

Dividend.—This dividend practically amounted to a return at the rate of 20 % per annum upon the issued share capital, and as a result the market price of the ordinary shares rose at once to 28s. per £1 share, and later (in July) to 35s.

Extensions.—In July 1931, the Board decided to acquire the Northby Cinematograph Theatre at the inclusive price of £40,000 payable in cash. They also contracted for the purchase of a site in Southtown for the purpose of erecting another picture theatre, which was estimated to cost £30,000

New Issue of Shares.—In order to finance these operations, the Board decided to invite the existing shareholders to subscribe for 40,000 £1 Ordinary Shares at 30s. per share, i e. at a premium of 10s per share. At the time of the new issue the original ordinary shares were quoted at 34s. 3d. per share. The prospectus of the new issue was circulated on August 1, 1931. The terms of the issue were :—

Payable on application (including the 10s. premium), 15s. per share.

Payable on allotment (September 1, 1931), 10s. per share.

And the balance as and when called up by the directors.

"Application Rights."—No applications for shares were con-

No. of Certificate: *1161616166*

*(*Statutory Report*)

COMPANIES ACT, 1929.

A 5s Companies' Registration Stamp must be *impressed* here.

REPORT pursuant to S 113 of the Companies Act, 1929, of *REALISTIC PICTURE PALACES*, Limited.

(*a*) The total number of *ordinary* shares allotted is *40,000* (*including seven signatories' shares*), of which *15,000* are allotted *as fully paid up* in consideration of *part of the purchase price of the cinematograph theatres acquired by the Company under its purchase agreement made the 10th day of January, 1931, with the Palaces Incorporation Syndicate, Limited*, and upon each of the remaining shares the sum of *£1* has been paid in cash

(*b*) The total amount of cash received by the Company in respect of the shares issued wholly for cash is *£25,000*. No shares have been issued partly for cash.

(*c*) The Receipts and Payments of the Company to the date of this Report are as follows —

Particulars of Receipts.	£	s.	d	Particulars of Payments.	£	s.	d.
Payment of £1 per share on 25,000 Ordinary Shares	*25,000*	*0*	*0*	*Part purchase consideration of cinematograph theatres paid in cash* . . .	*15,000*	*0*	*0*
Trading receipts	*7,126*	*4*	*1*	*Preliminary Expenses paid (stamps and capital duty)* .	*500*	*0*	*0*
				Trading payments	*5,022*	*1*	*11*
				Balance at Bank	*11,604*	*2*	*2*
£	*32,126*	*4*	*1*	£	*32,126*	*4*	*1*

The following is an account (or estimate) of the Preliminary Expenses of the Company :—

	£	s.	d.
Company's contribution in part reimbursement of the stamp duties on Company's registered Capital (£1. % *on £170,000*) *and upon its purchase agreement* (£1 % *on £30,000*) *as specified in its agreement with the Vendors*	*£500*	*0*	*0*

* This is not an official form An exact copy of the Statutory Report as issued to the members must be delivered to the Registrar of Companies for registration So long as the particulars are those required by the Act to be given, no particular form is prescribed.

(*d*) Names, Addresses and Descriptions of the Directors, Auditors, Manager, and Secretary of the Company:—

Surname.	Christian Name	Address.	Description
		DIRECTORS.	
Brown	*Jonas*	*Harewood House, Eastwell*	*Cinematograph Manager*
Charlesworth	*Henry*	*Limpswood, Westhorpe*	*Coal Agent*
Child	*Amos*	*The Holme, Seaville*	*Auctioneer*
		AUDITORS.	
Abel Counter & Co.		*Western Chambers, London, E.C.*	*Chartered Accountants*
		MANAGER.	
Brown	*Jonas*	*Harewood House, Eastwell*	*Cinematograph Manager*
		SECRETARY	
Lightwood	*Horace*	*The Picture Palace, Eastwell*	*Chartered Secretary*

(*e*) No modification of any contract is contemplated and none is therefore to be submitted to the Meeting for its approval.

Nil

We hereby certify this Report.

Jonas Brown
Hy. Charlesworth } Two Directors.

We hereby certify that so much of this Report as relates to the shares allotted by the Company and to the Cash received in respect of such shares and to the receipts and payments of the Company on Capital Account is correct.

Abel Counter & Co.,
Chartered Accountants } Auditors.

Dated the *17th* day of *February*, 1931.

Presented for filing by

....

....

sidered except those made upon the special forms issued to the shareholders, each of whom was entitled to apply for his proportionate part of the new issue. These forms, or "application rights," were transferable, and, since the old shares were quoted at 34s. 3d., shareholders who were unable or unwilling to subscribe could sell their subscription "rights" to purchasers desiring to apply for the new shares. The "rights" were marketable at about 3s 6d. to 4s. per share, and a purchaser of them at this price thus obtained his shares at a trifling reduction on the current quotations for the old shares.

Allotment of New Shares.—Under the conditions described above the new issue was rapidly subscribed for in full. Over-subscription was, of course, impossible, in view of the fact that "rights" were only issued for the exact number of shares comprised in the issue. A few shares which were not taken up by shareholders resident abroad were subscribed for at 30s per share by the company's contractors, who had stipulated for this privilege. The allotments duly took place on August 1, 1931.

Final Call.—All amounts payable on application, and on September 1, 1931, were duly paid. The Board decided to call up the final 5s. per share on October 1, 1931, the resolution passed on September 12, 1931, being as follows:—

September 12, 1931

RESOLVED that a final call of 5s. per share be and is hereby made upon the 40,000 partly paid ordinary £1 shares of the Company, and that the call be made payable at the Company's Bankers on the 1st day of October, 1931.

All moneys due under the call were paid up with the exception of the call on a holding of 2,000 shares.

The entries in respect of the call were as follows:—

CASH BOOK.

DR.			£	s.	d.				CR. £	s	d
1931. Aug. 1	To Ordinary Share Capital (2nd issue) Application and Allotment Account, being 15s per share received on application for 40,000 £1 shares issued at 30s per share .	L	30,000	0	0						
Sept. 1	,, Ordinary Share Capital (2nd issue) Application and Allotment Account, being allotment instalment of 10s. per share paid this day on 40,000 shares .	L.	20,000	0	0						
Oct. 1	,, Ordinary Share Capital (2nd issue) Final Call Account, being Final Call of 5s per share paid on 38,000 shares	L.	9,500	0	0						

JOURNAL.

			£	s	d.	£	s.	d.
1931. Sept. 1	Ordinary Shares (2nd issue) Application and Allotment Account .. Dr.	L.	50,000	0	0			
	To Ordinary Share Capital Account .	L				30,000	0	0
	Premium on Shares . .	L.				20,000	0	0
	Being 15s per share payable on application (including premium of 10s per share) and 10s. per share due on allotment on 10,000 £1 Ordinary shares allotted this day.							
Oct 1	Ordinary Shares (2nd issue) Final Call Account .. Dr	L	10,000	0	0			
	To Ordinary Share Capital	L				10,000	0	0
	Being Final Call of 5s per share on 40,000 £1 Ordinary Shares made by resolution of the directors, dated September 14, 1923.							
			£60,000	0	0	£60,000	0	0

LEDGER.

Dr. ORDINARY SHARE CAPITAL ACCOUNT. Cr

			£	s.	d				£	s.	d.
1931 Dec 31	To Balance carried down (80,000 £1 shares fully called up)	J	80,000	0	0	1931 Feb. 5	By Balance brought forward (40,000 £1 shares fully paid)	J.	40,000	0	0
						Sept 1	,, 15s per share on 40,000 shares (2nd issue) allotted this day .	J	30,000	0	0
						Oct 1	,, 5s per share Final Call on 40,000 shares (2nd issue) ..	J	10,000	0	0
		£	80,000	0	0			£	80,000	0	0
						1931 Dec.31	By Balance brought down (80,000 £1 shares fully called up)	J.	80,000	0	0

Dr. PREMIUMS ON SHARES ACCOUNT. Cr.

			£	s.	d.				£	s	d.
						1931. Aug 1	By premium of 10s per share on 40,000 £1 Ordinary Shares (2nd issue) issued at 30s	J.	20,000	0	0

ORDINARY SHARE CAPITAL (SECOND ISSUE) APPLICATION AND ALLOTMENT ACCOUNT.

Dr Cr.

			£	s.	d.				£	s.	d.
1931. Sept 1	To 25s per share due on application and allotment for 40,000 £1 Ordinary Shares (being 15s capital and 10s. premium) ..	J.	50,000	0	0	1931 Aug 1	By Cash, 15s. per share on application for 40,000 shares applied for .. .	C.B.	30,000	0	0
						Sept. 1	,, Cash, amounts due on allotment	C.B.	20,000	0	0
		£	50,000	0	0			£	50,000	0	0

ORDINARY SHARE CAPITAL (SECOND ISSUE) FINAL CALL ACCOUNT.

DR. CR

			£	s.	d.				£	s	d
1931 Oct. 1	To Final Call of 5s. per share due on 40,000 shares ..	J	10,000	0	0	1931. Oct 1	By Cash ..	C B.	9,500	0	0
						Dec. 31	" Balance carried down .. .	J	500	0	0
		£	10,000	0	0			£	10,000	0	0
1931. Dec. 31	To Balance brought down (unpaid Call on 2,000 shares) . ..	J.	500	0	0						

Decline of Profits.—During the second half of 1931, the cash takings fell off somewhat at the three theatres operated by the Company, and the Board decided to incur further capital expenditure on decoration and improvements at these theatres, with a view to increasing their attractiveness. In the meantime the Southtown Theatre was under construction and necessitated large payments to the building contractors.

First Annual Account.—The Company's Trial Balance, and the published Profit and Loss Account for the year ended December 31, 1931, and the Balance Sheet as on that date, were as follows :—

REALISTIC PICTURE PALACES, LIMITED.

TRIAL BALANCE AT DECEMBER 31, 1931

	DR. £	s.	d.	CR. £	s.	d.
Ordinary Share Capital				80,000	0	0
Ordinary Shares (2nd issue) Final Call Account	500	0	0			
Premiums on Shares				20,000	0	0
Eastwell Theatre	13,902	9	1			
Westhorpe Theatre	24,612	8	6			
Northby Theatre	43,157	18	3			
Southtown Theatre Construction Account .. .	20,000	0	0			
Sundry Debtors	41	1	2			
Preliminary Expenses Account	500	0	0			
Takings at Theatres and Refreshment Profits .				42,412	19	11
Sundry Receipts				169	4	1
Salaries and Wages	10,521	2	3			
General Expenses (operating), advertising and billposting	2,102	6	1			
Rent, Rates, Taxes, and Insurance	4,112	6	8			
Electricity and Gas	2,612	8	9			
Film Hire and Cost of Entertainments . ..	10,612	4	1			
Repairs and Maintenance of Theatres and Plant .	621	4	9			
Head Office Staff and Secretary's Salaries, Printing, and Stationery	4,029	1	6			
Directors' Fees	1,000	0	0			
Auditors' Fees	100	0	0			
Interim Dividend	4,000	0	0			
Cash in hand	157	12	11			
	£142,582	4	0	£142,582	4	0

Note.—In accordance with a resolution of the directors, Depreciation is to be written off the cost of the theatres as follows: Eastwell Theatre, £500; Westhorpe Theatre, £500; and Northby Theatre, £1,046 8s. 9d. The Preliminary Expenses Account is also to be written off.

REALISTIC PICTURE PALACES, LIMITED.

WORKING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1931.

Dr.		£	s	d		Cr.	£	s.	d.
1931. Dec. 31	To Salaries and Wages	10,521	2	3	1931 Dec 31	By Takings at Theatres and profits on refreshments	42,412	19	11
" 31	" General Expenses, Advertising, and Bill-posting	2,102	6	1	" 31	" Sundry Receipts	169	4	1
" 31	" Rent, Rates, Taxes, and Insurance	4,112	6	8					
" 31	" Electricity and Gas	2,612	8	9					
" 31	" Film Hire and Cost of Entertainments	10,612	4	1					
" 31	" Repairs and Maintenance of Theatres and Plant	621	4	9					
" 31	" Balance carried down, being Gross Profit on the Theatres	12,000	11	5					
		£42,582	4	0			£42,582	4	0
1931. Dec. 31	To Head Office Staff and Secretary's Salaries, Printing, Stationery, and General Expenses	4,029	1	6	1931. Dec 31	By Gross Profit on Theatres brought down	12,000	11	5
" 31	" Directors' Fees	1,000	0	0					
" 31	" Auditors' Fees	100	0	0					
" 31	" Preliminary Expenses written off	500	0	0					
" 31	" Depreciation: Eastwell Theatre £500 0 0; Westhorpe Theatre 500 0 0; Northby Theatre 1,046 8 9	2,046	8	9					
" 31	" Balance carried down, being net profit for the year	4,325	1	2					
		£12,000	11	5			£12,000	11	5
1931 Dec 31	To Interim Dividend paid July 5, 1931	4,000	0	0	1931 Dec. 31	By Balance brought down, being net profit for the year	4,325	1	2
" 31	" Balance carried down	325	1	2					
		£4,325	1	2			£4,325	1	2
					1931. Dec. 31	By Balance brought down	325	1	2

REALISTIC PICTURE PALACES, LIMITED.

BALANCE SHEET, DECEMBER 31, 1931.

	£	£	s.	d.		£	s.	d.
SHARE CAPITAL. *Nominal;* 70,000 6½ % Preference Shares of £1 each . .	70,000				PROPERTIES ACCOUNT, PREMISES, FURNITURE, FITTINGS, AND EQUIPMENT at cost less depreciation— Eastwell Theatre £13,402 9 1; Westhorpe Theatre 24,112 8 6; Northby Theatre 42,111 9 6	79,626	7	1
100,000 Ordinary Shares of £1 each	100,000							
	£170,000							
Issued; 80,000 Ordinary Shares of £1 each fully called up	80,000				SOUTHTOWN THEATRE Construction Account (cost of construction to date)	20,000	0	0
Less Calls in arrear	500	79,500	0	0	SUNDRY DEBTORS	41	1	2
Premiums on shares		20,000	0	0	CASH AT BANK AND IN HAND . .	157	12	11
Profit and Loss Account, net profit on trading for the year ended December 31, 1931. . .	£4,325 1 2							
Less interim dividend paid July 5, 1931	4,000 0 0	325	1	2				
£		99,825	1	2	£	99,825	1	2

Issue of Preference Shares.—In January 1932, the Company offered for subscription 30,000 6½ % Preference Shares of £1 each at par, payable as to 5s. per share on application, 5s. per share

CASH BOOK.

DR. CR.

			£	s.	d.				£	s.	d.
1932. Jan. 15	To Preference Shares Application and Allotment Account, being 5s. per share on 35,000 shares of £1 each applied for .		8,750	0	0						
" 20	,, Preference Shares Application and Allotment Account, being balance due on allotment of 30,000 shares of £1 each making them 10s. per share paid .		6,250	0	0						
Mar 2	,, Preference Shares First Call Account, being 10s per share paid this day on 30,000 Preference Shares of £1 each		15,000	0	0						

on allotment, and 10s. per share on March 2, 1932 The Company received applications for 35,000 of these shares, and allotments

were duly made for 30,000 shares. In the few cases where reduced allotments were made, the amounts paid in excess in respect of the shares allotted were applied in relief of the amounts due on allotment. All moneys payable under the terms of this issue of shares were received as and when due.

The Journal, Ledger, and Cash Book entries made in respect of the issue appear on pp. 488–9.

JOURNAL

			£	s.	d.	£	s.	d.
1932. Jan. 16	Preference Shares, Application and Allotment Account .. .. .. Dr. To Preference Share Capital Account Being 10s. per share on 30,000 shares of £1 each allotted as per resolution of Directors, dated this day.		15,000	0	0	15,000	0	0
Mar. 2	Preference Shares, First Call Account Dr To Preference Share Capital Account . Being 10s. per share due this day on 30,000 Preference Shares of £1 each.		15,000	0	0	15,000	0	0

LEDGER.

6½ % Preference Share Capital Account.

Dr.			£	s.	d.			Cr.	£	s.	d.
						1932. Jan 16	By 10s per share on 30,000 shares allotted this day	J.	15,000	0	0
						Mar. 2	" 10s per share First Call due this day on 30,000 shares allotted	J	15,000	0	0

6½ % Preference Shares, Application and Allotment Account.

Dr.			£	s.	d.			Cr.	£	s.	d.
1932. Jan. 16	To 10s per share on 30,000 shares allotted this day	J.	15,000	0	0	1932. Jan. 15	By Cash, 5s per share on 35,000 shares applied for	C.B.	8,750	0	0
						" 20	" Cash, being amounts due on allotment.. ..	C.B.	6,250	0	0
			15,000	0	0			£	15,000	0	0

6½ % Preference Shares, First Call Account.

Dr.			£	s.	d.			Cr.	£	s.	d.
1932. Mar. 2	To First Call of 10s. per share due this day on 30,000 shares	J	15,000	0	0	1932 Mar. 2	By Cash from Sundry shareholders in payment of Call due . ..	C B	15,000	0	0

Outside Investment.—Out of the proceeds of the above issue the Company subscribed for 28,000 Ordinary Shares of £1 each at par in an allied undertaking, the Interurban Cinematographs, Ltd.

Shares Forfeited.—On April 1, 1932, the Board resolved to forfeit the 2,000 shares on which the final call of 5s. per share remained unpaid. The necessary procedure was recorded in the Directors' Minute Book as follows :—

April 1, 1932.

The Secretary reported that the final call of five shillings per share due upon the 2,000 Ordinary Shares numbered 11201 to 13200 standing on the Company's register in the name of Mr. John James Holder, of West Bank House, Northby, remained unpaid, notwithstanding the fact that a notice requiring payment of the said call within four weeks, together with interest thereon at 6 % per annum, and intimating that in the event of non-payment of the sums due, the shares would be liable to forfeiture, had been sent by registered letter post to Mr. Holder at his registered address in conformity with the provisions of the Company's Articles of Association, and in pursuance of the instructions given by the Board at their meeting of February 2, 1932.

It was thereupon proposed, seconded, and

Resolved that the 2,000 Ordinary Shares of £1 each, numbered 11201 to 13200, standing in the name of Mr. John James Holder, be and they are hereby forfeited, and the Secretary is hereby instructed to notify Mr. Holder accordingly, and to intimate to him that he remains liable for the amount of the call, notwithstanding the forfeiture of the shares.

The Journal and Ledger entries made in respect of this forfeiture were as under :—

JOURNAL.

			£	s.	d.	£	s.	d.
1932. April 1	Ordinary Share Capital . .. . Dr		2,000	0	0			
	To Sundries, viz :—							
	Forfeited Shares Account					1,500	0	0
	Ordinary Share Capital (Final Call Account)					500	0	0
	Being 15s. per share paid on 2,000 Ordinary Shares forfeited this day, as per resolution of the Directors, and transferred to Forfeited Shares Account and for reversal of the Final Call of 5s. per share unpaid on the said shares.							

LEDGER.

ORDINARY SHARE CAPITAL ACCOUNT.

DR.											CR.
			£	s	d				£	s.	d.
1932. April 1	To Sundries, for 2,000 shares forfeited this day for non-payment of Final Call .	J.	2,000	0	0	1932 Jan 1	By Balance brought forward, 80,000 shares of £1 each fully called up.		80,000	0	0
1	" Balance carried down	√	78,000	0	0						
		£	80,000	0	0			£	80,000	0	0
						1932. April 2	By Balance brought down	√	78,000	0	0

ORDINARY SHARES, FINAL CALL ACCOUNT.

Dr.			£	s.	d.				£	s.	d.
1932. Jan. 1	To Balance brought forward, Final Call due on 2,000 shares .. .	√	500	0	0	1932 April 1	By Sundries, for Final Call unpaid now reversed on forfeiture of the shares	J.	500	0	0

Cr.

FORFEITED SHARES ACCOUNT.

Dr.			£	s.	d.				£	s.	d.
						1932. April 1	By Sundries, for 15s per share paid on 2,000 Ordinary Shares forfeited this day	J	1,500	0	0

Cr.

Re-Issue of Forfeiture Shares.—On May 1, 1932, the Board received an offer from Mr. James Welch to take up the 2,000 shares forfeited as described above at a price of 15s. per share, to include the unpaid final call of 5s. per share. The Board accepted Mr. Welch's offer, and resolved as follows:—

May 4, 1932.

RESOLVED that the 2,000 Ordinary Shares of £1 each, 15s. per share paid, and numbered 11201 to 13200, which were forfeited as per resolution of the Board dated April 1, 1932, on account of the non-payment of the final call of 5s. due thereon, be and they are hereby allotted to Mr. James Welch, of Carstow-by-Sea, upon the terms of the offer contained in his letter to the Company dated April 30, 1932, viz. that he will pay the Company 15s. per share therefor, being the unpaid final call of 5s. per share due thereon together with 10s. per share premium. The Secretary is hereby instructed to issue a letter of allotment to Mr. Welch accordingly.

The Journal and Ledger entries for this transaction were as under:—

JOURNAL.

			£	s	d	£	s	d.
1932. May 4	Sundries Dr.							
	To Sundries—							
	Ordinary Shares Forfeited and Reissued Account		1,500	0	0			
	Forfeited Shares Account		1,500	0	0			
	Ordinary Share Capital					2,000	0	0
	Premiums on Shares					1,000	0	0
	Being Final Call of 5s. per share previously left unpaid but now payable, 10s. per share further premium payable on reissue, and 15s per share previously paid in respect of 2,000 Ordinary Shares forfeited and now reissued to Mr. James Welch as per the Board's resolution dated this day.							

LEDGER.

Ordinary Share Capital.

Dr.											Cr.
			£	s	d.				£	s.	d.
1932 May 4	To Balance carried down .. .	√	80,000	0	0	1932 April 2	By Balance brought forward, 78,000 shares of £1 each fully paid ..	√	78,000	0	0
						May 4	„ Sundries, being £1 per share on 2,000 forfeited shares reissued by resolution of the Board dated this day	J.	2,000	0	0
		£	80,000	0	0			£	80,000	0	0
						1932 May 5	By Balance brought down, 80,000 shares of £1 each fully paid ..	√	80,000	0	0

Ordinary Shares Forfeited and Reissued.

Dr.											Cr.
			£	s.	d				£	s	d.
1932 May 4	To Sundries, Final Call of 5s per share on 2,000 forfeited shares reissued .	J	500	0	0	1932. May 4	By Cash (from James Welch)..	C B.	1,500	0	0
„ 4	„ Premium of 10s per share on above 2,000 shares reissued	J	1,000	0	0						
			£1,500	0	0				£1,500	0	0

Forfeited Shares Account.

Dr.											Cr.
			£	s	d				£	s	d
1932 May 4	To Sundries, for transfer to Share Capital Account upon reissue of shares	J	1,500	0	0	1932 April 2	By Balance, 15s. per share paid on 2,000 shares forfeited	√	1,500	0	0

Premiums on Shares.

Dr.											Cr.
			£	s.	d.				£	s.	d
1932. May 4	To Balance carried down	√	21,000	0	0	1932. April 2	By Balance . ..	√	20,000	0	0
						May 4	„ Premium received upon reissue of forfeited shares	J	1,000	0	0
		£	21,000	0	0			£	21,000	0	0
						May 5	By Balance brought down	√	21,000	0	0

Issue of Debentures.—Further capital being needed in order to carry out the completion of the picture palace at Southtown and

the purchase of a theatre at Seaville, the Board decided to issue £50,000 5 % First Mortgage Debentures redeemable at par at the expiration of ten years from July 1, 1932. The debentures were offered for subscription on June 26, 1932, at a price of 96 per £100 Debenture, payable ;—

	£	s.	d.	
On application	£16	0	0	per £100 Debenture.
On allotment	£80	0	0	per £100 Debenture.
	£96	0	0	per £100 Debenture.

The debentures ranked for interest as from July 1, 1932, a full six months' interest being payable on December 31, 1932.

Conversion Rights.—The Debenture Trust Deed contained a provision that at any interest date prior to July 1, 1934, the debentures could be converted into fully paid ordinary shares of £1 each at the holder's option. The terms of this conversion were that 100 fully paid ordinary shares would be issued in exchange for the surrender of each £100 Debenture together with a cash payment of £4 by the holder in respect of each £100 Debenture. Interest on the debentures was payable half-yearly on December 31st and June 30th in each year.

Increase of Nominal Capital.—Debentures to the value of £40,000 were subscribed for upon the above terms, and the Company, by special resolution, increased its authorised capital by the creation of a further 40,000 Ordinary Shares of £1 each to meet possible conversions. The expenses of the debenture issue amounted to £1,000, including stamp duties and the preparation of the necessary trust deed. These charges were paid in cash. The entries recording the debenture issue were as under :—

CASH BOOK.

Dr			£	s.	d.				£	s.	d. Cr
1932 June 30	To Debenture Application and Allotment Account, being £16 per £100 debenture on £40,000 5 % First Mortgage Debentures applied for		6,400	0	0	1932 July 20	By Debenture Issue Expenses Account, cash paid sundry parties for above		1,000	0	0
July 6	„ Debenture Application and Allotment Account, being the balance of £80 per £100 debenture due and paid on £40,000 debentures allotted ..		32,000	0	0						

Note.—Details of the cash receipts in respect of debentures would be recorded in the subsidiary Cash Books as already explained. The totals only would appear in the main Cash Book as shown above.

JOURNAL.

			£	s	d	£	s.	d.
1932 July 2	Sundries Dr To 5 % First Mortgage Debentures .					40,000	0	0
	Viz :— 5 % Debentures Application and Allotment Account		38,400	0	0			
	Discount on 5 % First Mortgage Debentures		1,600	0	0			
	Being £16 % due on application and £80 % due on allotment of £40,000 Debentures allotted this day together with the £4 % discount on issue thereof							

FIRST MORTGAGE 5 % DEBENTURES.
(Repayable at par July 1, 1934.)

DR			£	s	d				£	s.	d. CR.
						1932 July 2	By Sundries— £40,000 debentures allotted this day £16 per £100 due on application . £80 per £100 due on allotment .. £4 discount. £100	J.	40,000	0	0

FIRST MORTGAGE 5 % DEBENTURES, APPLICATION AND ALLOTMENT ACCOUNT.

DR			£	s.	d				£	s.	d. CR
1932. July 2	To Sundries, for £96 per £100 Debenture on £40,000 5 % Debentures allotted this day	J	38,400	0	0	1932 June 30	By Cash, £16 per £100 Debenture on £40,000 Debentures applied for	C.B.	6,400	0	0
						July 6	,, Cash, £80 per £100 Debenture on £40,000 Debentures allotted	C B.	32,000	0	0
		£	38,400	0	0			£	38,400	0	0

DISCOUNT ON 5 % FIRST MORTGAGE DEBENTURES.

DR.			£	s	d				£	s	d. CR
1932. July 2	To Sundries, £4 discount per £100 Debenture on £40,000 5 % First Mortgage Debentures issued at 96 %	J.	1,600	0	0						

5 % DEBENTURE ISSUE EXPENSES ACCOUNT.

DR			£	s	d				£	s.	d. CR.
1932. July 20	To Cash, expenses of issue of £40,000 5 % Debentures due 1/6/1934 . .	C.B.	1,000	0	0						

No debentures were converted into fully paid shares during the year 1932.

Financial Position at Close of Second Year.—The Company's position, as shown by its books, at December 31, 1932, was as follows :—

	£ s. d.	£ s. d.
Capital Issued:—		
Preference Shares, £1 fully paid		30,000 0 0
Ordinary Shares, £1 fully paid		80,000 0 0
Ordinary Shares created, but held in reserve to meet possible Debenture conversions, £1 each		40,000 0 0
Premiums on Shares		21,000 0 0
Profit and Loss Account, Credit Balance from 1931		325 1 2
Convertible 5 % Debentures issued (repayable July 1, 1941)		40,000 0 0
Discount on Debentures		1,600 0 0
Expenses of Debenture Issue		1,000 0 0
Freehold and Leasehold Properties and Premises, including Furniture, Fittings and Equipment, at cost, or as at December 31, 1931, plus additions, as follows :—		
Northby Theatre. This having proved unprofitable, was sold on December 30, 1932, for cash		15,000 0 0
Eastwell Theatre Dr. balance as at December 31, 1931	13,402 9 1	
Additions during 1932	711 4 2	
		14,113 13 3
Westhorpe Theatre. Dr. balance as at December 31, 1931	24,112 8 6	
Additions during 1932	2,211 1 2	
		26,323 9 8
Northby Theatre Dr. balance	42,111 9 6	
Additions during 1932	5,222 1 6	
		47,333 11 0
Southtown Theatre. Total cost to August 1932	30,266 8 4	
Additions to December 31, 1932	3,000 6 10	
		33,266 15 2
Seaville Theatre. Cost to date		22,000 0 0
Sundry Creditors		3,112 9 8
Sundry Debtors		2,024 1 2
Cash in hand, and at Bank on Current and Deposit Accounts		6,034 14 3
Takings at Theatres and Profits on Refreshments		52,011 4 6
Interurban Cinematographs, Ltd Holding of £28,000 Ordinary £1 Shares at cost		28,000 0 0
Sundry Income		5 2 6
Salaries and Wages		13,026 1 1
General Expenses, Advertising, Bill-posting, etc.		5,102 1 1
Rent, Rates, Taxes, and Insurance		5,116 2 1
Electricity and Gas		3,026 1 8
Film Hire, Orchestras, and Cost of Entertainments		21,116 2 1
Head Office Staff and Secretary's Salaries, Printing, Stationery, and General Expenses		6,814 2 2
Interest on Debentures		1,000 0 0
Income Tax		346 1 1
Repairs and Maintenance of Theatres and Plant		3,111 2 1
Directors' Fees		1,000 0 0
Auditors' Fees		100 0 0

Revaluation of Theatres.—The directors, after consultation with the Company's auditors and some of the largest shareholders, decided that the realised loss on the sale of the Northby Theatre must be written off, and that the following losses, which were

disclosed by an expert revaluation of the Company's properties, should also be written off, viz. :—

Eastwell Theatre Account, £4,113 13s. 3d., reducing it to £10,000.

Westhorpe Theatre Account, £6,323 9s. 8d., reducing it to £20,000.

Southtown Theatre Account, £3,266 15s. 2d., reducing it to £30,000.

Seaville Theatre, Nil.

It was decided that the £21,000 standing to the credit of the Premiums on Shares Account should be utilised in reduction of the above depreciations.

It was also decided to write off the Debenture Discount and Expenses of Issue Account (£2,600) at the rate of one-tenth of the amount per annum, i.e. one-twentieth in respect of the half-year to December 31, 1932

Accounts for 1932.—The Trial Balance, Working and Profit and Loss Accounts and Balance Sheet embodying the foregoing figures and decisions were as under :—

THE REALISTIC PICTURE PALACES, LIMITED.

TRIAL BALANCE, DECEMBER 31, 1932.

	Dr. £	s.	d.	Cr. £	s.	d.
Ordinary Share Capital Account				80,000	0	0
Preference Share Capital Account				30,000	0	0
Premiums on Shares				21,000	0	0
Profit and Loss Account (Balance, January 1, 1932)				325	1	2
5 % Debentures				40,000	0	0
Discount and Expenses on Debenture issue	2,600	0	0			
Eastwell Theatre	14,113	13	3			
Westhorpe Theatre	26,323	9	8			
Northby Theatre (loss on sale)	32,333	11	0			
Southtown Theatre	33,266	15	2			
Seaville Theatre	22,000	0	0			
Sundry Creditors				3,112	9	8
Sundry Debtors	2,024	1	2			
Takings at Theatres, etc.				52,011	4	6
Interurban Cinematographs, Ltd , 28,000 £1 shares	28,000	0	0			
Sundry Income				5	2	6
Salaries and Wages	13,026	1	1			
General Expenses, Advertising, etc.	5,102	1	1			
Rent, Rates, Taxes, and Insurance	5,116	2	1			
Head Office Expenses	6,814	2	2			
Electricity and Gas	3,026	1	8			
Interest on Debentures (half-year)	1,000	0	0			
Film hire, etc , and Cost of Entertainments	21,116	2	1			
Income Tax	346	1	1			
Repairs and Maintenance of Theatres and Plant	3,111	2	1			
Directors' Fees	1,000	0	0			
Auditors' Fees	100	0	0			
Cash in hand and at Bank on Current and Deposit Account	6,034	14	3			
	£226,453	17	10	£226,453	17	10

For Accounts, see pp 497 and 498

Shareholders' Committee.—The accounts were submitted to the annual meeting in January 1933. As the result of a stormy meeting, a Shareholders' Committee was appointed to confer with the Board as to the Company's future.

Receiver Appointed.—In the meantime the holders of the Company's 5 % Debentures took steps to enforce their security

WORKING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1932.

Dr.		£	s.	d.		Cr.	£	s	d.
1932. Dec. 31	To Salaries and Wages	13,026	1	1	1932 Dec. 31	By Takings at Theatres and Profits on Refreshments	52,011	4	6
" 31	" General Expenses, Advertising, Bill Posting, etc.	5,102	1	1	" 31	" Sundry Receipts	5	2	6
" 31	" Rent, Rates, Taxes, and Insurance	5,116	2	1					
" 31	" Electricity and Gas	3,026	1	8					
" 31	" Film Hire and cost of Entertainments	21,116	2	1					
" 31	" Repairs and Maintenance of Theatres and Plant	3,111	2	1					
" 31	" Gross Profit on Theatres carried down	1,518	16	11					
		£52,016	7	0			£52,016	7	0
1932 Dec 31	To Head Office Staff and Secretary's Salaries, Printing, Stationery, and General Expenses	6,814	2	2	1932 Dec 31	By Gross Profit on Theatres bought down	1,518	16	11
" 31	" Interest on Debentures (half-year)..	1,000	0	0	" 31	" Balance carried down, being loss for year 1932 excluding capital losses and depreciation ..	7,871	6	4
" 31	" Income Tax	346	1	1					
" 31	" Directors' Fees	1,000	0	0					
" 31	" Auditors' Fees	100	0	0					
" 31	" Proportion of discount on debentures and Debenture Expenses Account applicable to the half year ($\frac{1}{20}$th of £2,600)	130	0	0					
		£9,390	3	3			£9,390	3	3
1932 Dec. 31	To Loss for year 1932 (excluding capital losses and depreciation) brought down ..	7,871	6	4	1931. Dec 31	By Balance of Profit and Loss Account brought forward	325	1	2
" 31	" Realised loss on the sale of Northby Theatre	32,333	11	0	1932 Dec. 31	" Premiums received on the issue of Ordinary Shares now transferred to this account ..	21,000	0	0
" 31	" Amounts written off on revaluation of Theatres				" 31	" Balance carried down	32,583	14	3
	Eastwell	4,113	13	3					
	Westhorpe	6,323	9	8					
	Southtown	3,266	15	2					
		£53,908	15	5			£53 908	15	5
1932. Dec. 31	To Balance brought down	32,583	14	3					

THE REALISTIC PICTURE PALACES, LIMITED.

BALANCE SHEET, DECEMBER 31, 1932.

	£	s.	d.	£	s.	d.
SHARE CAPITAL.						
Nominal :—						
140,000 Ordinary Shares of £1 each .. .. (Of which 40,000 Shares are held in reserve to provide for possible conversion of Debentures).	140,000	0	0			
70,000 6 % Preference Shares of £1 each ..	70,000	0	0			
	£ 210,000	0	0			
Issued :—						
80,000 Ordinary Shares of £1 each fully paid				80,000	0	0
30,000 Preference Shares of £1 each fully paid..				30,000	0	0
FIRST MORTGAGE 5 % CONVERTIBLE DEBENTURES, repayable July 1, 1941 ..				40,000	0	0
SUNDRY CREDITORS				3,112	9	8
				£ 153,112	9	8

	£	s.	d.	£	s.	d.
PROPERTIES AND PREMISES, including furniture, fittings, and equipment, as per the valuation made in December, 1932, by Messrs Sure, Strate & Co. :—						
Eastwell Theatre ..	10,000	0	0			
Westhorpe Theatre ..	20,000	0	0			
Southtown Theatre ..	30,000	0	0			
Seaville Theatre	22,000	0	0			
				82,000	0	0
SHARES IN INTERURBAN CINEMATOGRAPHS, LTD at cost				28,000	0	0
DISCOUNT AND EXPENSES ON ISSUE OF DEBENTURES .	2,600	0	0			
Less amount applicable to 1932 written off ..	130	0	0			
				2,470	0	0
SUNDRY DEBTORS				2,024	1	2
CASH in hand and at Bank on current and deposit accounts..				6,034	14	3
PROFIT AND LOSS ACCOUNT. Debit Balance after revaluation of properties ..				32,583	14	3
				£ 153,112	9	8

by the appointment of a receiver. This action was based upon the ground that the Company had not observed certain restrictive covenants in the Trust Deed, and had thereby placed the debenture holders' security in jeopardy, and that, owing to the Company's default, the principal moneys secured under the Trust Deed had become payable. Concurrently, certain large holders of the Company's debentures, who had personally advanced money to Interurban Cinematographs, Ltd., obtained an order for the compulsory winding up of that Company on the ground that it was insolvent. In due course the Official Receiver reported a deficiency as regards the Interurban Company's creditors, and held out no hope of any return to the shareholders, including the Realistic Picture Palaces, Ltd., who held 28,000 shares.

Reconstruction.—After negotiation between the Directors, the debenture holders, and the Shareholders' Committee, a scheme for the reconstruction of the Realistic Company was arranged as under, that :—

(*a*) The cost of the Interurban Cinematograph shares (£28,000) should be written off the books of the Realistic Picture Palaces, Ltd.

(*b*) The Company should dispose of its Southtown Theatre (which had lost money steadily) to its principal Southtown rival (the Southtown Amalgamated Cinemas, Ltd.) at a price of £18,000, to be discharged as to £8,000 by the allotment to the Realistic Company of £8,000 of the Southtown Amalgamated Company's $5\frac{1}{2}$ % Debenture Stock, and as to £10,000 by the allotment of 10,000 of the Southtown Amalgamated Company's £1 Ordinary Shares credited as fully paid.

(*c*) The Realistic Picture Palaces, Ltd., should, with the consent of the High Court (which was duly obtained on April 11, 1933), reduce its 80,000 £1 fully paid ordinary shares to 80,000 2s. shares fully paid, in order to extinguish the losses shown by the revaluation of the theatres and the debit balance of the Profit and Loss Account, the sum available for these purposes under the reconstruction scheme being £72,000 in all.

(*d*) The debenture holders should agree to forgo their rights to convert their debentures into shares, and undertake to withdraw their proceedings against the Company.

(*e*) The preference shareholders should agree to surrender their preferential rights, and that every preference share of £1 should be split into ten ordinary shares of 2s. each, ranking equally with the reduced ordinary shares referred to in (*c*) above. The 40,000 unissued £1 Preference Shares were to be similarly treated.

(*f*) The 40,000 unissued £1 Ordinary Shares previously held in reserve to meet possible debenture conversions should (by resolutions of the Company sanctioned by resolutions passed at meetings of all interested holders of shares) be given special preferential rights to a dividend of 10 % per annum.

(*g*) The remaining 20,000 unissued £1 ordinary shares were subdivided into 200,000 2s. Ordinary Shares.

Issue of £1 Shares.—Of the above shares, 15,000 were offered at par for private subscription among the debenture holders and shareholders, payable as to 10s. per share on application and 10s. per share on allotment. 10,600 shares were applied for and fully paid up in cash, the allotment taking place on April 20, 1933. The remaining 4,400 shares were not applied for. The final assents to the reconstruction scheme were accorded on April 11, 1933, and the transfer of the properties, the allotments, and the respective conversions directly arising out of the above scheme took place on April 13, 1933.

The entries embodying these transactions were as given at pp. 501–3.

Accounts for 1933.—The Balance Sheet submitted to the shareholders for the year 1933 was as stated at p. 504.

Directors' Report.—In the Report issued by the Directors on March 27, 1934, it was explained that the Southtown Amalgamated Cinemas, Ltd., had experienced certain reverses during 1933. The Company had been involved in litigation in connection with the sites occupied by its theatres, and had also experienced a great falling-off in theatre profits. The Directors explained that, in order to provide the Southtown Cinemas with further funds, the Realistic Pictures Company had subscribed its *pro rata* proportion of the new 6 % Prior Lien Bonds issued by the former company.

The Directors also reported that the loss of £11,121 9s 6d. disclosed by the Realistic Company's trading operations for 1933 was due to a similar falling-off in the takings at the Company's theatres.

Offer of Balance of Preference Shares.—It was proposed to issue the balance of the 29,400 10 % Preference Shares of £1 each at par, in order to pay off the Bank overdraft and to provide the Company with further funds. Forms of application for these shares accompanied the Report. The Report further stated that the Board had entered into negotiations with certain rival cinematograph theatres with a view to eliminating undue advertising competition.

Receiver Appointed.—As an immediate result of the issue of the Report and Accounts, the Company's financial position became the subject of adverse criticism by the shareholders and the financial Press, and none of the new Preference Shares were applied for. The Company was unable to meet the local rates for the half-year on two of its theatres, and execution was levied, and the Bank requested the immediate repayment of its advance. As the Company failed to comply with this request, the Bank impounded the balance of the Company's current account in part satisfaction The above facts were utilised by the debenture holders as the basis for an application to the Court for the appointment of a Receiver. In due course a Receiver was appointed.

Liquidation.—In view of the situation described above, the Board sent out notices convening an extraordinary general meeting for the purpose of submitting an extraordinary resolution to wind up the Company by means of a creditors' voluntary winding up, on the ground that the Company was unable to continue its business by reason of its liabilities. Simultaneous notices were issued to the creditors calling a meeting for the same day, March 3, 1934; notices of the creditors' meeting were also inserted in the *Gazette*

JOURNAL.

			£	s.	d.	£	s	d.
1933 April 12	Profit and Loss Account .. .. Dr To Interurban Cinematograph, Ltd, Shares Account . .. Being cost of 28,000 fully paid £1 shares in the latter Company written off as lost		28,000	0	0	28,000	0	0
" 12	Sundries Dr. To Southtown Theatre Account . ..					18,000	0	0
	,, Southtown Amalgamated Cinemas, 5½ % Debenture Stock Account		8,000	0	0			
	,, Southtown Amalgamated Cinemas, Ltd, Ordinary Shares Account . Being proceeds of sale of Southtown Theatre discharged by the allotment of £8,000 5½ % Debenture stock and 10,000 £1 fully paid Ordinary Shares in Southtown Amalgamated Cinemas, Ltd		10,000	0	0			
" 12	Profit and Loss Account .. .. Dr. To Southtown Theatre Account .. Being loss on sale now written off .		12,000	0	0	12,000	0	0
" 12	Ordinary Share Capital Account . Dr To Profit and Loss Account (reduction of capital) . . .. Being amount written off on reduction of capital, viz. 18s per share written off 80,000 shares of £1 each with the consent of the Court, the shares being thereby reduced to 2s each.		72,000	0	0	72,000	0	0
" 12	6½ % Preference Share Capital Account Dr. To Ordinary Share Capital Account For 30,000 Preference Shares of £1 each converted and subdivided into 300,000 2s fully paid Ordinary Shares as per resolutions of shareholders		30,000	0	0	30,000	0	0
20	10 % Preference Shares, Application and Allotment Account .. . Dr To 10 % Preference Share Capital Account .. . . . Being 10,600 £1 shares allotted in response to applications		10,600	0	0	10,600	0	0

LEDGER.

ORDINARY SHARE CAPITAL ACCOUNT.

DR.			£	s	d				£	s	d. CR.
1933. April 12	To amount written off 80,000 £1 Ordinary Shares reducing them to 2s. shares .	J	72,000	0	0	1933. Jan. 1	By Balance, 80,000 £1 shares fully paid	√	80,000	0	0
" 12	,, Balance carried down, 380,000 2s. shares fully paid . .	√	38,000	0	0	April 12	,, Transfer from 6½% Preference Share Capital Account, for 30,000 £1 Preference Shares converted into 300,000 2s. Ordinary Shares	J.	30,000	0	0
		£	110,000	0	0			£	110,000	0	0
						1933 April 12	By Balance, 380,000 2s. shares fully paid	√	38,000	0	0

6½ % PREFERENCE SHARE CAPITAL ACCOUNT.

Dr.			£	s	d		Cr.		£	s	d
1933. April 12	To Transfer to Ordinary Share Capital Account, for 30,000 Preference Shares of £1 each converted into 300,000 fully paid Ordinary Shares of 2s. each .. .	J	30,000	0	0	1933. Jan. 1	By Balance, 30,000 £1 shares fully paid	√	30,000	0	0

10 % PREFERENCE SHARE CAPITAL ACCOUNT.

Dr.			£	s.	d.		Cr.		£	s	d.
						1933. April 20	By 10,600 £1 shares allotted	J	10,600	0	0

SOUTHTOWN THEATRE ACCOUNT.

Dr.			£	s	d		Cr.		£	s	d
1933. Jan. 1	To Balance .	√	30,000	0	0	1933. April 12	By Southdown Amalgamated Cinemas, Ltd., £8,000 debentures and 10,000 £1 shares received as purchase price of property .	J.	18,000	0	0
						,, 12	,, Profit and Loss Account, being balance written off	J	12,000	0	0
			£30,000	0	0				£30,000	0	0

INTERURBAN CINEMATOGRAPHS, LTD., £1 ORDINARY SHARES

Dr.			£	s.	d.		Cr.		£	s	d
1933. Jan. 1	To Balance, 28,000 £1 shares fully paid at cost ..	√	28,000	0	0	1933. April 12	By Cost of shares transferred to Profit and Loss Account .	J.	28,000	0	0

SOUTHTOWN AMALGAMATED CINEMAS, LTD., 5½ % DEBENTURE STOCK.

Dr.			£	s.	d		Cr.		£	s.	d.
1933. April 12	To £8,000 Stock received in part satisfaction of purchase price of Southtown Theatre	J	8,000	0	0						

SOUTHTOWN AMALGAMATED CINEMAS, LTD., ORDINARY SHARES.

Dr.			£	s.	d.				£	s.	d. Cr.
1933. April 12	To 10,000 fully paid £1 Ordinary shares received in part satisfaction of purchase price of Southtown Theatre . .	J	10,000	0	0						

PROFIT AND LOSS ACCOUNT.
(Reduction of Capital.)

Dr.			£	s.	d.				£	s.	d. Cr.
1933. Jan 1	To Balance ..		32,583	14	3	1933. April 12	By Transfer from Ordinary Share Capital Account, 18s. per share written off 80,000 £1 shares		72,000	0	0
April 12	,, Cost of 28,000 £1 Interurban Cinematograph, Ltd, shares written off ..		28,000	0	0	,, 12	,, Balance carried down .. .		583	14	3
,, 12	,, Loss on sale of Southtown Theatre written off		12,000	0	0						
			£72,583	14	3				£72,583	14	3
1933 April 12	To Balance brought down		583	14	3						

and two local newspapers. At the creditors' meeting the requisite statement of the company's affairs, a list of the creditors, and an estimated amount of their claims were duly submitted.

The company passed the winding-up resolution by the requisite majority, and Mr. Abel Counter, F C.A., having been appointed Receiver and Manager by the Court, the Company and the creditors both decided to appoint him Liquidator in the voluntary winding up also. It was decided not to appoint a Committee of Inspection. The statement of affairs prepared by Mr. A. Counter and submitted to the Extraordinary General Meeting called to pass the winding-up resolution and to the meeting of creditors is set out on pp. 505 and 506.

Realisation of Assets.—After his appointment was duly filed, the Liquidator acting as Receiver at once proceeded to realise the Company's assets. The Company's theatres were sold as under.—

Eastwell Theatre, by public auction, for £6,500.
Westhorpe Theatre, by public auction, for £23,500.
Seaville Theatre, by private treaty (after failure to sell by auction), for £13,800.

From the balance of £142 1s. 1d. in the hands of the Company's solicitors as on February 28, 1934, a further £2 1s. 1d was deducted for outstanding costs, and the balance was handed to the Liquidator.

The amounts due from Sundry Debtors realised £1,301.

The Prior Lien Bonds of the Southtown Amalgamated Cinemas, Ltd., were sold for £3,979 1s. 6d. net, after deducting brokerage.

The Liquidator paid the Company's bankers the £403 15s 6d which was due to them as on February 28, 1934, together with a further £6 4s. 6d. for accrued interest, whereupon the bankers released the 2,500 Southtown Amalgamated Cinemas, Ltd., Debenture Stock held by them as security.

THE REALISTIC PICTURE PALACES, LIMITED.

BALANCE SHEET, DECEMBER 31, 1933.

	£	s.	d.	£	s.	d.
Share Capital.						
Nominal:						
980,000 Ordinary Shares of 2s. each	98,000	0	0			
40,000 10 % Preference Shares of £1 each	40,000	0	0			
£	138,000	0	0			
Issued:						
380,000 Ordinary Shares of 2s each fully paid	38,000	0	0			
10,600 10 % Preference Shares of £1 each fully paid	10,600	0	0	48,600	0	0
First Mortgage 5 % Debentures repayable at par July 1, 1941				40,000	0	0
Loan from Bank secured by deposit of £2,500 Southtown Amalgamated Cinemas 6 % Prior Lien Bonds (part of £4,000 included contra) and the joint and several guarantees of the Directors of this Company .				500	0	0
Sundry Creditors				389	11	8
				£89,489	11	8

		£	s.	d.	£	s.	d.
Properties and Premises, including furniture, fittings and equipment							
Eastwell Theatre as valued December 31, 1932	£10,000 0 0						
Add expenditure during 1933	100 0 0	10,100	0	0			
Westhorpe Theatre as valued December 31, 1932 ..	20,000 0 0						
Add expenditure during 1933	1,112 1 1	21,112	1	1			
Seaville Theatre as valued December 31, 1932 .. .	22,000 0 0						
Add expenditure during 1933	150 0 0	22,150	0	0	53,362	1	1
Discount on and Expenses of Debenture Issue. Balance, December 31, 1932		2,470	0	0			
Less amount written off during 1933 ..		260	0	0	2,210	0	0
Sundry Debtors					12	2	4
Cash in Hand and at Bank on current account					200	4	6
Profit and Loss Account							
Residue of balance as on December 31, 1932, not written off under the reorganisation scheme		583	14	3			
Loss for the year ended December 31, 1933		11,121	9	6	11,705	3	9
Southtown Amalgamated Cinemas, Ltd.							
£8,000 5½ % Debenture Stock at cost ..					8,000	0	0
10,000 £1 fully paid Ordinary Shares at cost					10,000	0	0
£4,000 6 % Prior Lien Bonds subscribed for during 1933 to the extent of the Company's proportionate holding, valued at cost					4,000	0	0
					£89,489	11	8

THE REALISTIC PICTURE PALACES, LIMITED. (IN LIQUIDATION.)

APPROXIMATE STATEMENT OF AFFAIRS AS REGARDS CREDITORS AS ON FEBRUARY 28, 1934

Creditors	£	s.	d	£	s	d.
FIRST MORTGAGE DEBENTURES.						
£40,000 5 % Debentures	40,000	0	0			
Add Interest accrued thereon since January 1, 1926	333	6	8			
				40,333	6	8
SUNDRY CREDITORS (excluding Preferential Creditors for £202 1s. 4d deducted per contra, and fully secured creditors), estimated				618	9	5
ESTIMATED SURPLUS REMAINING for Shareholders after repayment of creditors (subject to costs and expenses of receivership and liquidation)				19,213	17	11
NOTE.—Amounts due to Creditors fully secured (£403 15s. 6d) are deducted from the value placed on their security per contra						
				£60,165	14	0

Assets		£	s	d	£	s	d.
PROPERTIES AND PREMISES.							
Eastwell Theatre	£10,100 0 0*	6,000	0	0†			
Westhorpe Theatre	21,112 1 1*	21,000	0	0†			
Seaville Theatre	22,150 0 0*	15,000	0	0†			
	£53,362 1 1*				42,000	0	0†
CASH IN HANDS OF SOLICITORS, representing debts recovered, after deduction of estimated costs					142	1	1
SUNDRY DEBTORS.							
Good	£1,104 9 9						
Doubtful	110 0 0						
Bad	100 0 0						
Estimated to realise . . .					1,169	9	9
SOUTHTOWN AMALGAMATED CINEMAS, LTD, £4,000 Prior Lien Bonds, cost £4,000, quoted at 99					3,960	0	0
SOUTHTOWN AMALGAMATED CINEMAS, LTD							
£2,500 5½ % Debenture Stock (cost 100, now quoted at 75) deposited to secure Bank loan		1,875	0	0			
Loan from Bank and interest .	£505 0 0						
Less balance on current account	101 4 6						
		403	15	6			
		1,471	4	6			
£5,500 5½ % Debenture Stock (cost 100, now quoted at 75) (in Company's hands) ..		4,125	0	0			
					5,596	4	6
SOUTHTOWN AMALGAMATED CINEMAS, LTD 10,000 fully paid £1 Ordinary Shares cost £10,000, now quoted at 15s					7,500	0	0
Total Assets					60,367	15	4
Deduct Preferential Creditors for salaries, wages, rates, and taxes					202	1	4
					£60,165	14	0

* Book Value. † Estimated to realise.

After having been put up to public auction and withdrawn owing to the want of satisfactory offers, the Southtown Amalgamated Cinemas, Ltd., Debenture Stock (£8,000 in all) and the 10,000 Ordinary Shares of £1 each in the same Company were sold privately to a group of shareholders in that Company at a price of 75½ for the debentures and 14s. per share for the shares.

The Liquidator realised sundry small assets for £81 2s. 9d.

Liquidation Expenses.—The Liquidator paid the following expenses of liquidation: Travelling and sundry expenses, £102 9s. 6d.; Wages of staff and caretakers, £342; Legal expenses, £504 1s. 2d.; Auction charges, etc., £304 9s. 6d.; Liquidator's

THE REALISTIC PICTURE PALACES, LIMITED.
(IN LIQUIDATION.)

APPROXIMATE STATEMENT OF AFFAIRS AS REGARDS SHAREHOLDERS AS ON FEBRUARY 28, 1934

SHARE CAPITAL ISSUED.	£	s.	d	ASSETS.	£	s	d.
PREFERENCE SHARES, having priority as regards repayment of capital, 10,600 £1 shares fully paid	10,600	0	0	ESTIMATED SURPLUS after providing for repayment of debentures and creditors, brought from preceding statement (subject to costs of receivership and liquidation)	19,213	17	11
ORDINARY SHARES, 380,000 shares of 2s. each fully paid	38,000	0	0	ESTIMATED DEFICIENCY as regards Ordinary Shareholders	29,386	2	1
£	48,600	0	0	£	48,600	0	0

NOTES.—The values placed on the Company's three theatres in the foregoing statements are considered by Mr. J. Rowe, F.S.I., as being capable of realisation. The properties are all freehold, and are stated to possess considerable site values apart from the theatres standing upon them. The shares, debentures, and prior lien bonds of the Southtown Amalgamated Cinemas, Ltd., are valued at the selling prices quoted in the financial Press on February 28, 1934. The estimated surplus as regards debenture holders and creditors is naturally dependent upon realisation of the approximate values placed on the assets.

ABEL COUNTER, F.C.A.,
WESTERN CHAMBERS, LONDON, E.C.
February 28, 1934.

remuneration (as fixed by the creditors), £500; Stamps, fees, and other incidental expenses, £311 2s. 6d.

The Liquidator carried on two of the theatres for a short time, the receipts being £1,986 2s. 4d. and the working expenses £1,990 9s. 2d.

Distribution of Assets.—The Liquidator paid the preferential creditors, amounting to £209 2s. 2d. On July 1, 1934, he paid the First Mortgage Debentures, amounting to £40,000, together with six months' accrued interest to date of repayment at 5 % per annum. After due examination, he also paid the ordinary creditors, whose claims were agreed at £453 12s. 7d.

The Liquidator then repaid the preference share capital in full, and declared a first and final dividend of 4 8d. per share (equalling 4s. in the pound) on the outstanding 380,000 fully paid 2s. ordinary shares.

THE REALISTIC PICTURE PALACES, LIMITED. (IN LIQUIDATION.)

STATEMENT OF ACCOUNTS OF THE RECEIVER AND LIQUIDATOR FROM MARCH 3, 1934, TO JANUARY 31, 1935

Receipts.	£	s	d
To Proceeds of Property realised as under:—			
Eastwell Theatre	6,500	0	0
Westhorpe Theatre	23,500	0	0
Seaville Theatre	13,800	0	0
Cash in hands of Solicitors at date of liquidation	142	1	1
Sundry Debtors	1,301	0	0
Southtown Amalgamated Cinemas, Ltd., £4,000 Prior Lien Bonds net proceeds after deducting brokerage	3,979	1	6
£8,000 5½ % Debenture Stock, sold at 75½	6,040	0	0
10,000 £1 Ordinary Shares, sold at 14s per share	7,000	0	0
Other Assets realised	81	2	9
	£62,343	5	4

Payments		£	s	d.
By Expenses of Liquidation:—				
Travelling and Sundry Expenses	£102 9 6			
Wages of Staff and Caretakers	342 0 0			
Legal Expenses	504 1 2			
Auction Charges, etc	304 9 6			
Liquidator's Fee	500 0 0			
Stamps, Fees and other incidental expenses ..	311 2 6	2,064	2	8
" Expenses of carrying on two of the Theatres pending sale	£1,990 9 2			
Less receipts	1,986 2 4	4	6	10
" Payments in full to:—				
(*a*) Preferential Creditors	£209 2 2			
(*b*) Creditors fully secured, against liberation of their securities	412 1 1	621	3	3
" First Mortgage Debentures paid off on July 1, 1934	£40,000 0 0			
Interest accrued due thereon	1,000 0 0	41,000	0	0
" Unsecured Creditors paid in full at amounts agreed upon with creditors for admission of their claims		453	12	7
" Preference Share Capital repaid, 10,600 £1 shares fully paid		10,600	0	0
" First and final dividend on Ordinary Share Capital at 4·8 pence per 2s share (= 4s in the £) on 380,000 fully paid Ordinary Shares		7,600	0	0
		£62,343	5	4

Shareholders can obtain any further information relating to the above accounts upon application at my office.

Abel Counter, F.C.A.,
Receiver and Liquidator,
Western Chambers, London, E.C.
January 31, 1935.

Liquidator's Cash Statement.—The statement set out on p. 507, embodying the results of the liquidation, was circulated among the shareholders with the notice convening the final winding-up meetings, which were held on March 5, 1935

At the final meetings, the shareholders and the creditors approved the Liquidator's accounts, and the creditors passed a resolution authorising him to destroy the Company's papers and books in the customary course upon the dissolution of the Company.

The Company was dissolved on June 6, 1935, i e. three months after the date of filing of the Liquidator's report of the meeting of March 6, 1935.

EXAMINATION QUESTIONS.

1. The Ravary Manufacturing Company, Ltd., was registered in 19.. with a nominal capital of £75,000, divided into 50,000 Ordinary Shares of £1 each, and 25,000 6 % Preference Shares of £1 each.

The following Trial Balance was extracted from the books of the Company as on December 31, 19.. :—

TRIAL BALANCE.	£	£
Ordinary Shares Account (30,000 £1 Shares fully paid)		30,000
6 % Preference Shares Account (20,000 £1 Shares fully paid)		20,000
Freehold Premises	14,500	
Plant and Machinery	10,200	
Motor Lorries	1,450	
Stock, January 1, 19..	8,752	
Sundry Creditors		4,246
Loan on Mortgage (5 %)	1,000	
Sundry Debtors	22,460	
Reserve for Bad Debts (January 1, 19)		1,000
Patents Account	600	
Reserve Account		4,000
Purchases	54,926	
Purchases Returns		984
Sales		86,278
Sales Returns	1,128	
Factory Wages	18,926	
Fuel and Oil	1,222	
Gas and Lighting (Factory, £300 ; Office, £24)	324	
Carriage Inwards	1,721	
Carriage Outwards	984	
Rates, Taxes, and Insurance	421	
Discount Account (Balance)	342	
Directors' and Auditors' Fees	552	
Cash at Bank	4,287	
Cash in hand	824	
Profit and Loss Account Balance (January 1, 19..)		3,826
Preference Dividend (half-year to June 30, 19.)	600	
Bills Receivable	961	
Office Salaries and Expenses	2,856	
Advertising and Travellers' Expenses	1,298	
	£150,334	£150,334

You are required to prepare Manufacturing and Profit and Loss Accounts for the year ended December 31st, and a Balance Sheet as on that date.

When preparing these Accounts, the following adjustments are necessary: (1) The Stock on hand on December 31st was valued at £10,982

(2) Depreciation is to be written off as follows: Machinery and Plant, 10 %; Motor Lorries, 20 %; Patents, 50 %. (3) The Reserve for Bad Debts is to be raised to an amount equal to 5 % on the Sundry Debtors. (4) A year's interest at 5 % was due on the Loan on Mortgage, but had not been passed through the books. (5) £1,000 is to be transferred to Reserve Account (*Royal Society Arts.*)

2. John Barley, an old-established brewer, agreed to take his manager, Augustus Hartman, into partnership as on January 1, 19... Hartman was to pay a premium of £2,000 in cash to Barley, who was to pay it into his Capital Account, increasing it to £25,000. In addition, Hartman was to pay £5,000 into the business as his own capital. Hartman was to be credited with a salary of £400 per annum, and 5 % of the net profits after providing for interest on capital and his salary. Each partner was to be entitled to 5 % interest on his capital, and no interest was to be charged on drawings, which were fixed as follows: Barley, £100 per month, and Hartman (in addition to his salary), £50 per month. Profits and losses were to be shared—two-thirds to Barley and one-third to Hartman. All these transactions were duly carried out.

Apart from the accounts necessary to record the above arrangement as at December 31, 19. , the Ledger balances on the same date were as follows: Sundry Creditors, £10,848; Freehold Brewery, £45,933, Loans from Sundry Persons, £20,000; Interest on Loans Account (Dr. balance), £1,198, Bank Overdraft, £5,000; Purchases, £28,461; Purchases Returns, £982; Sundry Debtors, £8,640; Loans to Publicans, £1,500; Sales, £59,874; Sales Returns, £421, Loan from Bankers, £10,000; Motor Lorries, £1,400; Improvements and Replacements, £4,560; Machinery, Plant, Barrels, etc., £4,500, Fixtures and Fittings, £800, Horses and Carts, £780; Stock (January 1, 19..), £14,874; Travellers' Salaries and Expenses, £2,041; Brewery Wages, £3,241; Fuel and Coal, £548; Rates, Taxes, and Insurance, £1,598, Government Duty and Licences, £10,841; Carriage Account (outwards, £952; inwards, £150), £1,102; Rents Account (Dr balance), £942; Bad Debts, £424, Cash in hand, £105; Office Salaries and Expenses, £1,495; Bad Debt Reserve (January 1, 19..), £500.

You are required to prepare Trading and Profit and Loss Accounts for the year ended December 31, 19.., and a Balance Sheet as on that date.

Before preparing these accounts the undermentioned adjustments are necessary: (1) One-third of the cost of Improvements and Replacements is to be charged against Revenue (2) The following depreciations are to be written off: Motor Lorries, 20 %, Machinery, Plant, etc., 10 %; Fixtures and Fittings, 15 %. (3) The Horses and Carts were valued, as on December 31, 1917, at £570, and the Stock in hand at £18,721. (4) The Reserve for Bad Debts is to be increased to an amount equal to 10 % on the Sundry Debtors. (*Royal Society Arts.*)

3. From the following particulars prepare the Trading and Profit and Loss Accounts of the Bankside Trading Company, Ltd., incorporated on January 1, 19.., with a nominal capital of £30,000, divided into 3,000 Ordinary Shares of £10 each for the year ended December 31, 19.., and Balance Sheet at that date. Ordinary Share Capital, £26,000; General Expenses, £360; Carriage Inwards, £400, Carriage Outwards, £600; Returns Inwards, £500; Returns Outwards, £2,000; Machinery, £25,000; Advertising, £1,100; Debentures at 6 %, issued July 1, 19 ., £8,000; Insurance, £170, Sundry Creditors, £2,100; Rates, £500, Bills Payable, £3,000; Salaries, £1,700; Purchases, £66,000; Sales, £82,000; Rent, £900; Cash at Bank, £4,270; Sundry Debtors, £19,180; Office Furniture, £500; Debenture Interest, £120; Preliminary Expenses, £1,800.

Allowance must be made for the following adjusting entries: One quarter's Rent is unpaid Proportion of Rates paid in advance, £100. Preliminary Expenses are to be extended over three years. Create Reserve for Debenture Interest due. Advertising to be spread over two years. Create Reserve for Bad Debts at 5 % on Sundry Debtors. Depreciate Machinery at 7½ % per annum. Stock at December 31, 19.., valued at £17,000. (*Central Association Accountants.*)

4. Dicksons, Ltd , was formed in 19.. to acquire an established manufacturing business. The Company was registered with a nominal capital of 100,000 shares of £1 each. Of this capital, 50,000 shares were issued and fully called up.

The understated Trial Balance was extracted from the books of the Company as on December 31, 19...

TRIAL BALANCE, DECEMBER 31, 19...

	£	£
Goodwill	15,000	
Share Capital		50,000
Calls in arrear	100	
Freehold Factory	27,000	
Plant and Machinery	6,400	
Interim Dividend, paid August 3, 19..	1,250	
Sales		63,812
Sales Returns	1,184	
Purchases	28,972	
Purchases Returns		1,141
5 % Debentures		15,000
Stock, January 1, 19..	14,864	
Office Furniture	320	
Manufacturing Wages	19,964	
Factory Power	3,241	
Patents Accounts	2,000	
Sundry Debtors	4,838	
Sundry Creditors		2,334
Cash in hand	56	
Cash at Bank	3,140	
Profit and Loss Account (Credit Balance, December 31 last)		2,896
Preliminary Expenses	620	
Discount Account	94	
Carriage Inwards	978	
Carriage Outwards	1,271	
Rates, Taxes, and Insurance	142	
Office Salaries, Directors' Fees, etc.	821	
Office Expenses	109	
Bad Debts Reserve (December 31, 19.)		500
Transfer Fees		5
Machinery Repairs	374	
Cost of Patterns	2,200	
Debenture Interest	750	
	£135,688	£135,688

You are required to prepare Manufacturing and Profit and Loss Accounts for the year ended December 31, 19.., and a Balance Sheet as on that date. Before preparing these accounts the following adjustments are necessary: (1) 50 % of the Patterns Account is to be charged against the cost of manufacture. (2) The stock on hand on December 31, 19. , was valued at £15,664. (3) 50 % of Preliminary Expenses Account is to be written off. (4) Unexpired insurances amounted to £39 as on December 31, 19... (5) 10 % depreciation is to be written off the Machinery and Plant, 15 % off the Patents, and 10 % off the Office Furniture. (6) The Bad Debts Reserve is to be increased to £1,000. (*Chartered Institute Secretaries.*)

5. The Marne Manufacturing Company, Ltd., was registered with a nominal capital of 50,000 Ordinary Shares of £1 each, and 20,000 6 % Preference Shares of £1 each. The Company was formed to acquire an established business as on January 1, 19.., £10,000 being paid for goodwill. The vendors undertook to pay the preliminary expenses not exceeding £1,000 in all, and agreed to refund any loss arising from the collection of the book debts incurred prior to January 1, 19...

All the preference shares were issued and fully called and paid up;

40,000 of the Ordinary Shares were subscribed and fully paid up, with the exception of the final call of 5s. per share due on 1,000 shares forfeited by resolution of the directors during the year.

On June 30, 19.., 100 5 % Debentures of £100 each were issued at 95, and fully subscribed and paid up.

In addition to the transactions mentioned above, the following balances were extracted from the books of the Company as on December 31, 19. : Purchases, £21,948, Purchases Returns, £521; Sales, £57,362; Sales Returns, £342; Preliminary Expenses Account, £1,285; Factory Wages, £14,962; Rates, Taxes, and Insurance, £1,322, Fuel, Power, and Lighting, £2,842; Leasehold Factory, £20,300, Plant and Machinery, £21,450; Royalties paid on patent process, £1,625; Directors' Fees, £500; Transfer Fees, £15; Carriage on Purchases, £1,596; Carriage on Sales, £984; Manufacturing Charges, £1,442; Stock, December 31 last, £12,958; Haulage Earnings, £846, Discount (debit balance), £192; Salaries and Office Expenses, £1,825, Sundry Creditors, £2,021; Cash at Bank, £2,469, Bills Payable, £640, Sundry Debtors, £9,862, Bad Debts (of which £341 was in respect of debts incurred during the year ended December 31, 19..), £927; Loose Tools, £1,824.

You are required to prepare Manufacturing and Profit and Loss Accounts for the year ended December 31, 19. , and a Balance Sheet as on that date.

Before preparing these accounts the undermentioned adjustments are necessary: (a) The interest due on the Debentures has not been provided for. (b) The waste on the Lease of the Factory must be provided for. The Lease dates from the date of acquisition of the business, and expires on the twentieth anniversary (c) The fuel and lighting consumed in the offices was estimated at £59. (d) Unexpired insurance on December 31, 19.., amounted to £74. (e) Provide for a war bonus of £300 to the office staff. (f) The Stock on December 31, 19.., was valued at £12,831, and the Loose Tools at £1,200 (g) A provision of 5 % on the Sundry Debtors is to be created for Bad and Doubtful Debts. (h) 10 % depreciation is to be written off the Plant and Machinery Account. (*Chartered Institute Secretaries.*)

6. The following Trial Balance is extracted from the books of Brown Bros, a firm carrying on business as proprietors and publishers of periodicals. There are three partners—John, Joseph, and Henry. You are required to draft a Balance Sheet and Profit and Loss Account as at June 30th, making the adjustments as set out:—

	£	£
Capital Account (contributed equally)		21,000
Drawing Accounts (drawn equally)	9,000	
Salaries and Wages (12 months)	2,380	
Editorial (12 months)	600	
Contributors (12 months)	450	
Engravings (12 months)	720	
Drawings (12 months)	418	
Printing Accounts (12 months)	4,880	
Paper used (12 months)	4,700	
Miscellaneous Expenses (12 months)	392	
Advertising Expenses (12 months)	890	
Advertisements Revenue		7,800
Sales		24,700
Sundry Creditors		2,600
Bills Payable		1,470
Sundry Debtors—		
Advertisers	3,220	
For Goods	2,800	
Amount received for Waste Stock		33
Cash at Bank	1,330	
Cash in hand	7	
Joseph Brown—Loan Account	4,000	
Furniture and Fixtures	1,240	
Goodwill and Copyrights	20,576	

The Stock of Periodicals was of no value.

The Loan Account of Joseph Brown is to be credited with his share of the profits, less his drawings. (*Incorporated Accountants.*)

7. From the undermentioned particulars prepare the Profit and Loss Account and Balance Sheet of the Upton Trading Company, Ltd., as at September 30th: Bills Receivable, £510; Bills Payable, £460; Depreciation Account (property), £1,000; Midland Bank, £2,330; Cash, £130; Office Furniture, £480; Transfer Fees, £10; Reserve for Bad Debts, £1,270, Directors' Fees, £550; Stock, September 30th, £4,260; Law Costs, £26; Office Expenses, £1,667, Rent, £300; Income Tax, £108; Salaries, £680, Rent and Rates paid in advance, £35; Freehold Property, £4,000; Debtors, £7,857; Creditors, £4,718; Trading Account (profit), £5,475; Capital: 5,000 6 % Preference Shares, 5,000 Ordinary Shares, £10,000.

Provide 5 % depreciation on Office Furniture and reserve a further 10 % for Bad and Doubtful Debts. (*Incorporated Accountants.*)

8. The following is the Trial Balance of Barr and Long on December 31, 19... They share profits in proportion to capital. No interest is charged on capital, but 5 % on Current Account balances. Each is entitled to £500 a year, by way of salary, which they have drawn.

TRIAL BALANCE.

	£	£
Barr, Capital Account		5,000
Long, Capital Account		3,000
Barr, Current Account (January 1st)		800
Long, Current Account (January 1st)	300	
Stock on hand, January 1, 19	3,846	
Bills Receivable	250	
Debtors	4,760	
Creditors		1,130
Purchases	7,180	
Sales		10,740
Discounts on Sales	417	
Discounts on Purchases		158
Rent, Rates, and Taxes	318	
Wages and Salaries	920	
Partner's Salaries	1,000	
General Expenses	382	
Reserve for Bad and Doubtful Debts		266
Cash at Bankers	685	
Cash in hand	36	
Goodwill	1,000	

(*Chartered Accountants.*)

9. The following are the Ledger Balances of Messrs. Jones, Smithson & Co., brewers and wine and spirit merchants, on June 30, 19. .

Prepare Trading and Profit and Loss Account for the year to June 30, 19.., and Balance Sheet as on that date.

The Stock on June 30, 19. , at cost, amounted to £3,000.

Adjust the Accounts by deducting depreciation from the following assets thus: Plant and Machinery, 7½ %; Bottles, 33 %; Cases and Sundries, 5 %; Horses, 10 %, Carts and Harness, 5 %; Motor Lorries, 20 %; Casks, 2½ %.

Ledger Balances, June 30, 19..: A. Jones, Capital, £36,000; W. Smithson, Capital, £23,000, Freehold Brewery, £30,000; Plant and Machinery, £3,000; Bottles, £1,350; Cases, £650; Horses, £560; Carts and Harness, £530; Sales: Beer, £54,960; Wines and Spirits, £5,600, Sundry, £1,630; Purchases, £28,000; Duty: Beer, £8,000; Wines and Spirits, £1,100; Wages, £2,500, Salaries, £950; Sundry Creditors, £5,250; Sundry Debtors, £21,000, Sundry Expenses, £1,380; Rates, Taxes, and Licenses, £700; Freehold and Leasehold Houses, £38,000; Bank Loan, £10,000; Depositors, £13,000; Travelling, £900; Horse Keep, £250; Reserve Account, £5,705; Motor Expenses, £80; Motor Lorries, £900; Interest on Loans (Dr.), £1,350; Interest on Loans (Cr.), £675;

Casks, £2,000; Stock, £5,690; Balance at Bank, £5,980; Rents Received, £1,250; Rents Paid, £1,500; Repairs to Brewery, £200; Repairs to Houses, £500. (*Chartered Accountants.*)

10. The Eldorado Cigarette Company, Ltd., was registered on April 1, 19.., with a Nominal Capital of £30,000, divided into 25,000 Ordinary Shares of £1 each, and 500 Preference Shares of £10 each. 22,179 Ordinary Shares were allotted (upon application), called up and fully paid, with the exception of £32 ("Calls in arrear"), while the whole of the Preference Shares were allotted and paid up before March 31 following.

On March 31, 19.., in addition to the above transactions, the following were the Ledger Accounts' Balances of the Company. You are required, after making the adjustments stated below, to prepare a Trading Account and a Profit and Loss Account for the year ended March 31, 19 ., and a Balance Sheet as on that date. The Stock in hand as on March 31, 19.., was valued at £16,455

Ledger Accounts' Balances: Cash in hand, £129; Rent, £620; Gas and Electric Light, £182; Rates and Taxes, £203; Licence and Insurance, £209, Trade Expenses, £506; Electric Power, £63; Interest and Discount (Debit Balance), £3,275; Sales: Tobacco, £25,693; Cigarettes, £61,460; Shorts and Sundries, £7,565; Sales Returns: Tobacco, £427; Cigarettes, £1,036; Shorts and Sundries, £193; Purchases: Tobacco, £74,029; Sundries, £2,300; Boxes, £3,053; Purchases Returns: Tobacco, £1,745; Sundries, £162; Boxes, £47; Bad Debts (written off), £247; Wages (Manufacturing), £7,517; Salaries, £1,587; Carriage, £896; Travellers' Salaries, Commission, and Expenses, £1,479; Printing and Postage, £347; General Expenses, £93; Plant and Machinery, £3,420; Fixtures and Fittings, £1,160; Advertising and Samples, £904; Profit and Loss Account (Debit Balance), £479; Legal Expenses, £53; Audit Fee, £105; Stock, £17,532; Bad Debts Reserve, £542, Sundry Creditors, £22,970, Sundry Debtors, £24,360; Cash at Bankers, £927.

Adjustments: Insurance paid in advance, £49; Rates paid in advance, £32; Owing for Salaries, £40; Owing for Electric Light, £34; Owing for Electric Power, £18; Depreciation, Plant and Machinery, 10 %; Depreciation, Fixtures and Fittings, 7½ %; Reserve for Bad and Doubtful Debts, 2½ % on the amount of the Sundry Debtors. (*Chartered Accountants.*)

CHAPTER IX

PARTNERSHIP

THE accounts of a partnership business, in so far as they relate to commercial transactions, are identical with those of a sole trader. But, apart from the purely trading transactions, partnership presents aspects and entails accounting methods which are peculiar to the relations existing between partners, such, e g , as the ownership of the capital, the division of profits, the admission of new partners, the dissolution of the firm, and the particular records necessitated by the varied rights of the partners *inter se.*

PARTNERSHIP LAW.

A knowledge of partnership law is required from candidates for the professional examinations, but not from candidates presenting themselves for the commercial examinations. But without some knowledge of partnership law, the preparation of intelligible and accurate accounts dealing with the affairs of a partnership is impossible.

The Partnership Acts.—The statutes dealing with partnership matters, with which the student is chiefly concerned, are (*a*) *The Partnership Act*, 1890, which came into operation on January 1, 1891. This Act codified, and to some extent amended, partnership law as it then existed, and dealt with partnership generally; (*b*) *The Limited Partnership Act*, 1907, which, under certain conditions, extends the principle of limited liability to partnerships, and deals with the rights and obligations of *limited* as opposed to *general partners*. The latter Act is dealt with at pp. 556–60.

The student must clearly understand at the outset that the Act of 1890 governs all partnership relations, except in so far as its regulations may have been varied by agreement between the members of a partnership, either in writing, or verbally, or inferred from the practice of the firm. Further, the Act of 1890 expressly declares that the rules of equity and common law applicable to partnership shall continue in force unless they are inconsistent with the provisions of the Act.

Definition of Partnership.—The Act of 1890 defines partnership as "the relation which subsists between persons carrying on a business in common with a view of profit" (S. 1, ss. 1). With the object of emphasising the two basic principles of partnership relations, viz. agency and mutual agreement, Sir Frederick Pollock, the learned authority who drafted the Act of 1890, extends the

above definition as follows. "Partnership is the relation which subsists between persons who have agreed to share the profits of a business carried on by all or any of them on behalf of all of them." Neither of these definitions is free from criticism, but probably a comprehensive definition is out of reach.

What Constitutes Partnership.—Wide as the statutory definition of partnership quoted above may appear to be, it is sometimes difficult to decide whether, in a given set of circumstances, partnership relations actually exist. There being no statutory definition of the term "partner," certain tests must be applied to determine whether a person is or is not a partner. It would seem that three conditions are necessary in order to establish the fact of partnership There must be (*a*) an actual business carried on with a view of profit, (*b*) mutual agreement between the persons carrying on the business; (*c*) agency relationship between such persons In other words, there must have been created, from the point of view of outsiders, mutual agreement to carry on a business with a view of profit, and agency relations between the persons carrying it on. If these conditions obtain, a contract, actual or constructive, must exist between them. The contract may be for a definite or an indefinite period. It may be verbal (*Parole Agreement*), or under hand (*Partnership Articles*), or under deed (*Partnership Deed*), or it may be partly in one form and partly in another, or there may be no other evidence of its existence than can be inferred from the conduct of the parties. With regard to partnership agreements for more than a year, the *Statute of Frauds* (29 Car. 2, c. 3), S. 4, provides that they cannot be enforced unless either (*a*) they are in writing, or (*b*) there has been part performance.

Perhaps, after all, the crucial test of partnership is supplied by the answer to the question what was the real intention of the parties (*Cox* v. *Hickman*, 8 H.L.C. 268).

The joint ownership or tenancy in common of property does not of itself create a partnership, whether the owners or tenants do or do not share any profits made by the use thereof. The sharing of gross returns does not of itself create a partnership, whether the persons so sharing have or have not a joint or common right or interest in the property whence the returns are derived. The receipt of a share of the profits of a business is *prima facie* evidence that the person so sharing is a partner in the business; but receiving such a share, or a payment contingent on or varying with the profits of the business, does not of itself make him a partner. Thus, the receipt by instalments of the amount of a liquidated debt, i.e. a debt the amount of which has been ascertained and agreed, out of the future profits of a business does not of itself make the receiver a partner. Neither of itself does receipt of a share of the profits of a business by a servant or agent in whole or part payment for services rendered, or the receipt of a share of the profits by the widow or child of a deceased partner in lieu of an annuity; or the receipt by a lender at a rate of interest varying with the profits, or of a share in the profits in lieu of interest (provided there be a contract in writing signed by or on behalf

of the parties thereto); or the receipt of a share of the profits of a business by a person in consideration of the sale by him of the goodwill of the business But where money is lent, or goodwill is sold as above, the claims of the lender or seller are deferred, should the borrower or buyer become bankrupt, until the ordinary creditors have been satisfied (SS 2 and 3).

The Firm Name.—Persons who have entered into partnership relations are collectively known as a *Firm.* The name they trade under is known as the *Firm name* (S. 4). The partners may sue and be sued in the firm name, but the firm has not in England (as it has in Scotland) a legal existence as a corporate body distinct from the individuals who compose it. The firm name need not, and frequently does not, contain the name of any actual member of the firm. Partners may sue in the name of the firm, but on demand by the defendant must state the names and addresses of the partners. An order can also be obtained in an action requiring the defendant firm to disclose the names and addresses of its members. But these provisions are not of much importance since the passing of the *Registration of Business Names Act,* 1916. Writs may be served on any one of the partners of a firm, or, at the principal place of business within the jurisdiction, upon any person having control or management of the businss there.

Registration of Business Names Act, 1916.—Under this Act, every firm having a place of business in the United Kingdom and carrying on business under a name which does not consist of the true surnames of all partners who are individuals, and the corporate names of all partners who are corporations, without any addition other than the true Christian name of individual partners or initials of such Christian names; and every individual having a place of business in the United Kingdom and carrying on business under a business name which does not consist of his true surname without any addition other than his true Christian names or the initials thereof; and every individual or firm having a place of business in the United Kingdom who, or a member of which, has either before or after the passing of this Act changed his name, except in the case of a woman in consequence of marriage, shall be registered in the manner directed by this Act. Registration is to be effected with the Registrar of Business Names in London or Edinburgh, as the case may require.

Particulars to be Registered.—The particulars to be registered are the business name, the nature and place of the business, the Christian name and surname, and any former Christian name or surname, nationality (and, where there has been a change of nationality, the nationality of origin), the residence and occupation of each partner. It is thoughtfully provided that the "Christian" name is to include any forename. The penalties in default are very serious. Not only is there a liability to fine, but there is the tremendous penalty of being unable to enforce contracts. "The rights of that defaulter under or arising out of any contract made or entered into by or on behalf of such defaulter in relation to the business . . . after he is in default shall not be enforceable

by action or other legal proceeding." There is power for the Court to relieve the defaulter from the consequences of default, but failing such relief (upon granting which the Court may impose any conditions it thinks fit) the firm cannot recover upon any contract, i.e. they cannot obtain the price of goods sold, or payment for work done, or commission earned

In addition to registration, the firm must, in all trade catalogues, trade circulars, show-cards, and business letters, mention in legible characters the present Christian name or initials and present surname, and any former Christian name or surname of each partner, and his nationality if not British, and if there has been a change of nationality, then the nationality of origin. The penalty in this case, however, is merely a fine.

Partnership Contrasted with Company.—By Section 358 of *The Companies Act*, 1929, no partnership consisting of more than ten persons shall be formed for the purpose of carrying on the business of banking, and by S. 357 no partnership consisting of more than twenty persons shall be formed for the purpose of carrying on any other business that has for its object the acquisition of gain unless it be registered as a company. Section (1), ss. (2) of *The Partnership Act*, 1890, expressly excludes from the Act all companies or associations whether registered under the Companies Acts, or incorporated by Special Acts, Letters Patent, or Royal Charter, or subject to the jurisdiction of the Stannaries. Consideration of the essential difference between the constitution and character of a company and that of a private partnership will suggest sufficient reason for the legal distinction A company is controlled and directed by a few directors as representing the members, who, for the most part, are strangers to one another; whereas it is the essence of a partnership that good faith and mutual confidence and trust should exist between the members. If the student will bear this difference in mind, he will more readily appreciate the wide powers and responsibilities attached by the statute to the partners in a private firm as compared with those appertaining to the members of a company. The student will also be wise to keep continually in mind the fact that the relationship of partners is one of *contract*, based upon mutual confidence and trust, and that, consequently, any particular customs which may be set up by a firm may become binding upon the partners, although such customs may not be in harmony with the regulations of the Partnership Act (S. 19). Indeed, partners may, by agreement amongst themselves, expressly vary or exclude the provisions of the Partnership Act. But they cannot, of course, deprive third parties of their statutory rights. Broadly speaking, the Partnership Act only applies in the absence of a partnership agreement, or where the agreement is silent

Other Partnership Restrictions.—Apart from the exceptions mentioned above, there are few limitations imposed upon persons desirous of entering into partnership relations. A married woman may be a partner, and the income from her separate estate, even though it be restrained from anticipation, may, by order of the

Court on the application of the Trustee in Bankruptcy, be partially or wholly set aside for the benefit of the creditors of the firm. An infant may be a partner, but his liability as a partner is conditioned by the fact that he cannot bind himself by contract except for personal necessaries. If he continues a partner after he attains twenty-one he becomes equally liable with his co-partners, except for debts contracted during his infancy. A convict is incapable of entering into a contract. So also is a lunatic, except in a proved lucid interval.

Status and Powers of Partners.—Under the Partnership Act, every partner is an agent of the firm (S. 5). In fact, every partner fills the dual rôle of both agent and principal. As agent, a partner's acts are binding upon his co-partners, and as principal his co-partner's acts are binding upon him, provided that the acts committed be either within the ordinary scope of the firm's business, or committed with the authority of all the other partners. Thus a partner in a drapery firm who buys linen without the authority of his co-partners nevertheless binds the firm, since to buy linen is within the ordinary scope of a draper's business. But if, without the authority of his co-partners, he were to buy a railway engine in the firm's name, he would not bind the firm, since the buying of railway engines is without the ordinary scope of a draper's business. He would, however, bind the firm if his co-partners had authorised the buying of the railway engine. Further, if the third party did not know or believe the person with whom he is dealing to be a partner then in no case would the firm be bound (S. 5). But the personal liability of a partner acting without authority, or outside the ordinary scope of the business, remains unaffected by these considerations (S. 7).

"*Ordinary Scope of the Business.*"—It is not easy in all cases to define what is within the ordinary scope of the business. But, speaking generally, a partner in a trading firm may (*a*) sell the goods and chattels of the firm; (*b*) purchase goods appertaining to the usual business of the firm; (*c*) collect the debts of the firm and give receipts; and (*d*) engage servants necessary for the conduct of the business. In a trading partnership a partner may (*e*) draw, endorse, and discount bills of exchange and other negotiable instruments; (*f*) borrow money on the firm's credit; (*g*) pledge the goods of the firm; and (*h*) mortgage the property of the firm. A partner may not, however, unless specially authorised by the other partners, pledge the credit of the firm for his private purposes, or for a purpose not connected with the firm's ordinary course of business (S. 7). A partner has no implied authority to bind the firm by deed, or give a guarantee in the name of the firm, or bind the firm by a submission to arbitration. A trading partnership is one which involves the purchase and sale of goods. A firm of auctioneers is not such a partnership, neither is a firm of solicitors. Hence a partner in such firms does not bind the firm if, without the authority of his co-partners, he accepts a bill of exchange in the firm name. If partners agree between themselves that the powers of one or more of them shall

be restricted in any direction, notice of the fact must be given if outside creditors are to be bound by the agreement. No act done by a partner so restricted in contravention of the agreement is binding on the firm in the case of any person who has notice of the agreement (S. 8).

Liability of Partners.—*A* partner's liability is joint with that of his co-partners for all debts and obligations of the firm incurred while he is a partner. (In Scotland a partner is both jointly and severally liable.) In addition, the estate of a deceased partner is severally liable for the debts and obligations of the firm incurred while he was a partner, but subject in England and Ireland to the prior payment of his private debts (S. 9). A joint liability is not individual but collective; it is the liability of all the partners together. Each partner is liable for all the debts contracted by the firm from the moment when he became a partner and all the time he continues to be a partner. The proper course for an unpaid creditor is to sue the firm. Judgment against the firm gives the creditor power to enforce the judgment not only against the partnership property, but also against the private estates of the partners. Every partner is liable to his last penny for the debts of the firm. But if a creditor sues some, but not all, of the partners, and obtains judgment against them, those not sued are discharged from liability, even though the judgment remains unsatisfied (*Kendall* v. *Hamilton*, [1897] 4 App. Cas. 504).

Every partner is jointly and severally liable for the torts, i.e. wrongful acts, of his co-partners (SS. 10 and 11). But in order to render the firm liable the wrongful act must have been committed by a partner while he was acting with the apparent authority of his co-partners, or within the ordinary scope of the business. Thus, in *Hamlyn* v. *Houston*, [1903] 1 K.B. 81, a firm was held liable in damages for the act of a partner who used the firm's money to bribe the clerk of a rival firm to disclose valuable information, and thus secured in a wrongful way what it was within the ordinary course of the firm's business to obtain lawfully.

A partner who receives and misapplies the money or property of third parties renders his co-partners jointly and severally liable for the tort, if he was acting within the scope of his apparent authority; and if a firm in the course of its business receives the money or property of a third party, and it is misapplied by one or more of the partners while it is in the custody of the firm, all the partners are jointly and severally liable (S. 11).

A partner, being a trustee, who improperly employs trust money in the partnership business, does not thereby render his co-partners liable to the beneficiaries of the trust, but only such of them as can be shown to have had notice of the breach of trust, i.e. such of them as were actually aware of the fact, or, but for wilful abstention from inquiry or gross negligence, would have become aware of the fact. But such misapplied trust moneys may be followed and recovered from the firm (S 13).

It is not essential that a partner should be an *active partner* in order to incur partnership liabilities. A *sleeping, silent, or dormant*

partner is equally liable. But a *limited partner*, as is explained later (see p. 557), incurs no liability beyond the amount of the capital he has contributed or agreed to contribute to the partnership funds. Broadly speaking, the *general partner* can bind the firm in any dealings with the outside world, if such dealings are within the ordinary scope of the partnership business, or within the authority committed to him ; but a limited partner has no power to bind his co-partners or to take any part in the management of the business. If he does interfere in the management, he thereby makes himself liable as a general partner so long as the interference continues.

Holding Out.—A person may become liable as a partner in a firm by holding himself out as such, i.e. by representing himself, or suffering himself to be represented, either by words or by conduct, as a partner. Such quasi-partners are estopped, i.e. precluded by law, from denying liability to those who have given the firm credit on the strength of such holding-out and in the genuine belief that the ostensible partner was in fact a partner. The holding-out must be conscious and intentional. The use of a man's name without his knowledge does not, of course, make him liable, and the continuance of a deceased partner's name as part of the firm's name does not of itself render his executors liable for the debts of the firm contracted after his death (S 14). A retiring partner may render himself liable for the debts of the firm contracted subsequent to his retirement, unless he has by advertisement in the *London Gazette*, and by specific notice to the usual creditors of the firm, given notice of his retirement. But in the case of a dormant partner, i.e. one unknown to those giving credit to the firm, notice of retirement would not appear to be necessary to relieve him of liability for subsequent debts (S. 36).

Novation.—A partner newly admitted to an existing firm does not thereby become liable to the creditors of the firm for debts contracted before he was admitted a partner. Neither does a retiring partner cease to be liable for debts contracted by the firm prior to his retirement (S. 17, ss. 1, 2). In order to release a retiring partner from liability for debts incurred prior to his retirement, and thus to fix the incoming partner with liability for those debts, there must be an agreement to that effect between the retiring partner, the firm as newly constituted, and the creditors. Such an agreement may be express, or it may be inferred as a fact from the course of dealing between the creditors and the firm as newly constituted. This substitution of liability is termed *novation*, and is not confined to partnership affairs. It is sometimes difficult to decide in a particular case whether novation has been established. The creditors' assent to the substitution of one debtor for another is essential. No mere agreement between the old partners and the incoming partner that the outgoing partner shall be released has any validity so far as creditors are concerned without their assent. If that were so, a debtor could always avoid liability by assigning the burden of his debt to a pauper and so defraud his creditor. A firm is competent to make it a condition of trade

that creditors shall look only to the members of the firm for the time being. It is competent to do so, but it might be difficult for the firm to obtain credit on such terms.

Revocation of Continuing Guarantee.—A continuing guaranty given either to a firm or to a third person in respect of the transactions of a firm is, in the absence of agreement to the contrary, revoked as to future transactions by any change in the constitution of the firm to which, or of the firm in respect of the transactions of which, the guaranty was given (S. 18) Thus, e g. where a continuing guarantee is given by a third party to a firm's bankers to secure repayment of the final balance of an overdraft granted to the firm, and one or more of the partners die or retire, or one or more new partners are admitted to the firm, the guarantee comes to an end. In any of the events enumerated the bankers would rule off the current account of the firm, and obtain a renewal of the guarantee in respect of the newly constituted firm, or, failing renewal, would press the guarantor for the final balance. In the event of the firm's bankruptcy, immediate recourse would be had to the guarantor. Similarly, a continuing guarantee given by, instead of on behalf of, a firm would come to an end in the event of any change in the firm's constitution.

Power to Vary Partnership Terms.—Partners may vary the terms of partnership at any time by mutual consent, whether the terms are laid down by agreement between them or by the Partnership Act, and such consent may be either express or inferred from a course of dealing (S. 19). Thus, where over a term of years the partnership property is periodically valued and the partnership accounts are made up consistently with the practice of the firm, that practice becomes binding upon the partners, even though it may conflict with the Articles of Partnership or with the Act.

The practice of debiting bad debts as and when they are ascertained to be bad to the current Profit and Loss Account protects a retiring, or the executors of a deceased partner from the reopening of past accounts for the purpose of adjusting debts discovered to be bad after the partner's retirement or death.

Partnership Property.—All partnership property, whether originally brought into the partnership stock, or subsequently acquired by purchase or otherwise on account of the firm, or for the purposes and in the course of the partnership business, must be held and applied by the partners exclusively for the purposes of the partnership and in accordance with the partnership agreement (S. 20). Unless the contrary intention appears, property bought with money belonging to the firm is deemed to have been bought on account of the firm (S 21).

Interests and Duties of Partners.—Unless there be an agreement either express or implied to the contrary, then (S. 24) provides that:—

(1) All the partners are entitled to share equally in the capital and profits of the business, and must contribute equally towards the losses, whether of capital or otherwise, sustained by the firm.

(2) The firm must indemnify every partner in respect of payments

made and personal liabilities incurred by him (*a*) in the ordinary and proper conduct of the business of the firm; (*b*) in or about anything necessarily done for the preservation of the business or property of the firm.

(3) A partner is entitled to interest at 5 % per annum on any actual payment or advance he may make beyond the amount of capital which he has agreed to subscribe as from the date of the payment or advance.

(4) A partner is not entitled, before the ascertainment of profits, to interest on capital subscribed by him.

(5) Every partner may take part in the management of the partnership business.

(6) No partner shall be entitled to remuneration for acting in the partnership business.

(7) No person may be introduced as a partner without the consent of all existing partners.

(8) Any difference arising as to ordinary matters connected with the partnership may be decided by a majority of the partners, but no change may be made in the nature of the partnership business without the consent of all existing partners

(9) The partnership books are to be kept at the place of business of the partnership (or the principal place, if there is more than one), and every partner may, when he thinks fit, have access to and inspect and copy any of them.

The fact that the above are statutory regulations which apply where there is no partnership agreement, or, if there be a partnership agreement, where the agreement does not expressly vary or exclude them, shows how necessary a carefully drawn partnership agreement usually is. Clearly, the law can lay down only general rules in these matters, and leave it to the parties to meet particular circumstances by special contract. Some of the above provisions find a place in most partnership agreements, for they are obviously right and proper, and conduce to that personal confidence between partners which is the foundation stone of partnership. And it is conceivable that there are circumstances when the application of the regulations as a whole would be perfectly equitable. It is probable, however, that few partnerships exist where the partners' capitals are equal in amount and the division of profits and losses is exactly equal As a general rule, the relative shares of the partners in a firm are expressly settled in the partnership agreement.

Subsection (4), which deprives partners of any interest on capital, is unjust in cases where the capital of the partners is unequal in amount and the degree of skill which they bring or the time which they devote to the business is the same. So, too, is ss. (6), that no partner is entitled to remuneration for acting in the partnership business in cases where the degree of skill possessed by the partner, or his power to bring business, or the time which he devotes to the partnership affairs greatly exceeds that of the other partners, and those others have not redressed the inequality by larger contributions to the partnership funds. The regulation, ss (5), that all the partners are entitled to take part in the management, might conceivably spell disaster in cases where a partner contributes capital only and has no knowledge of the business and no aptitude for acquiring it.

A partner has no power to delegate his right to take part in

the management. A partner's right to be indemnified by the firm for his partnership acts and expenditure [ss. (2)] is an extension of the ordinary principles of the law of agency. When differences arise in ordinary partnership matters [ss. (8)], all the partners must be consulted, although a majority of them may decide. The majority must exercise their power in good faith and for the benefit of the firm as a whole. A majority of partners cannot expel one of their number, unless by express agreement they have power so to do (S. 25) With regard to ss. (9), a partner may employ an agent to examine the books on his behalf, provided the other partners have no reasonable ground for objecting to the particular person employed. But the agent must not use the information so obtained for any other purpose than that of confidentially advising his principal (*Bevan* v. *Webb*, [1901] 2 Ch. 59). Thus the members of a trade union may employ an accountant to inspect the books and accounts of the society, the accountant undertaking that the information shall be used only to inform his clients of the result of the inspection (*Norey* v. *Keep*, [1909] 1 Ch. 561).

In addition to the fact that partners are entitled to 5 % interest on moneys contributed by way of loan (ss. 3), it should be remembered that they are entitled to repayment of such loans in priority to ordinary capital, provided that all the outside liabilities of the firm have been met (S. 44). No partner can introduce another in substitution for himself unless there is agreement to that effect. Such an agreement is sometimes found in order to secure the succession of a son or brother. A partner may assign or mortgage his interest in the partnership, but the assignee can take no active part in the business of the firm, his right being confined to receiving the share of profits to which the assignor is entitled, or, on the dissolution of the firm, the share of the partnership assets (S. 31). Where one partner assigns his interest in the partnership to the extent that he deprives himself of all substantial interest in the firm, that may be ground entitling the other partners to a dissolution of the partnership.

Partnership at Will.—Where no fixed term has been agreed upon for the duration of the partnership, any partner may determine the partnership at any time on giving notice of his intention so to do to all the other partners. Where the partnership was originally constituted by deed, a notice in writing signed by the partner giving it is sufficient for this purpose [i.e. it is not necessary to give notice by deed] (S. 26).

Where a partnership entered into for a fixed term is continued after the term has expired and without any express new agreement, the rights and duties of the partners remain the same as they were at the expiration of the term, so far as is consistent with the incidents of a partnership at will (S. 27).

Undisclosed Profits.—Partners are bound to render true accounts and full information of all things affecting the partnership to any partner or his legal representatives. Every partner must account to the firm for any benefit derived by him without the consent

of the other partners from any transaction concerning the partnership, or from any use by him of the partnership property, name, or business connection If a partner, without the consent of the other partners, carries on any business of the same nature as and competing with that of the firm, he must account for and pay over to the firm all profits made by him in that business (SS. 28-30).

Dissolution of Partnership.—Sections 32–35 enact that subject to any agreement between the partners, a partnership is dissolved :—

(*a*) If entered into for a fixed term, by the expiration of that term (effluxion of time).

[We have already seen that when a partnership is entered into for a fixed term, and continued without a fresh agreement after the expiration of the term, it becomes a "partnership at will."]

(*b*) If entered into for a single adventure or undertaking, by the termination of that adventure or undertaking.

(*c*) If entered into for an undefined time, by any partner giving notice to the other or others of his intention to dissolve the partnership. In this case the dissolution dates from the day mentioned in the notice, or, if no day is mentioned, from the date of the communication of the notice

(*d*) By the death or bankruptcy of any partner.

(*e*) If a partner suffers his share of the partnership property to be charged under this Act for his separate debt, the partnership may be dissolved at the option of the other partners.

[By S. 23, no writ of execution will issue against partnership property except on a judgment against the firm. A creditor who has obtained judgment against a partner for his separate debt may apply to the High Court, or the Chancery Court of the County Palatine of Lancaster, or a County Court for an order charging the partner's interest in the partnership property and profits, and the Court may by the same or a subsequent order appoint a receiver of the partner's share. When such an event takes place, the other partners, by (*e*) above, may at their option dissolve the partnership.

This was one of the chief alterations in the law effected by the Partnership Act, 1890.]

(*f*) By the happening of any event which makes it unlawful for the business to be carried on, or for the members of the firm to carry it on in partnership.

[Thus a partnership consisting of more than twenty persons (or, in banking, of ten) is illegal. A solicitor may not enter into partnership with an unqualified person. The profession of barrister may not be exercised in partnership. On the outbreak of war, partnership with an alien enemy, or with a person residing or trading in an enemy country, becomes illegal, and such a partnership is dissolved. A partnership may not be carried on for a criminal or illegal purpose, such, e.g., as smuggling or the conduct of a lottery.]

On application by a partner, the Court may decree a dissolution of the partnership in any of the following cases .—

(*g*) When a partner is found lunatic by inquisition [i.e after an inquiry directed by the Judge in lunacy as to whether a person is of unsound mind and incapable of managing his own

affairs], or is shown to be of permanently unsound mind. The lunatic himself, through his committee, or next friend, may apply to the Court for a dissolution.

(*h*) When a partner, other than the partner suing, becomes in any other way permanently incapable of performing his part of the partnership contract.

(*i*) When a partner, other than the one suing, has been guilty of such conduct as, in the opinion of the Court, is calculated prejudicially to affect the carrying on of the business.

(*j*) When a partner, other than the one suing, wilfully or persistently commits a breach of the partnership agreement, or conducts himself in such a way that it is not reasonably practicable for the other partner or partners to carry on the business in partnership with him.

[Mere rudeness or petty quarrels afford no ground for an application for dissolution, but continued quarrels resulting in such a state of animosity as precludes all hope of reconciliation would entitle an application to be made.]

(*k*) When the business can only be carried on at a loss.

(*l*) Whenever circumstances have arisen which in the opinion of the Court render it just and equitable that the partnership should be dissolved.

On the dissolution of a partnership, or retirement of a partner, any partner may publicly notify the same (S. 37) After the dissolution, the authority, rights, and obligations of the partners continue, but only so far as is necessary to wind up the business of the firm. In no case, however, is the firm bound by the acts of a partner who has become bankrupt (S. 38). When a partnership is dissolved, every partner is entitled to have the partnership property applied in payment of the debts of the firm, and to have the surplus assets applied in payment of the amounts due to the partners, and any partner, or his representatives, may apply to the Court for an order to that effect on the termination of the partnership (S. 39).

If a partner has been admitted to partnership for a fixed term upon the payment of a premium, and the partnership is dissolved before the expiration of the term, otherwise than by the death or misconduct of the partner paying the premium, the Court may order the repayment of such portion of the premium as it may deem just in the circumstances (S. 40). The repayment will, as a general rule, be based upon the proportion which the unexpired term of the partnership bears to the full term fixed by the agreement (*Atwood* v. *Maude* (1868), L.R. 3 Ch. 369).

Goodwill.—No special mention is made in the Act with regard to the disposal of goodwill in the event of dissolution. The case law rules, however, would appear to decide that, in the absence of an agreement to the contrary, a partner has the right to insist upon the sale of the goodwill for the benefit of all the partners (*In re David and Matthews,* [1899] 1 Ch 378). When the goodwill of a partnership is sold, the former partners are not thereby debarred

from carrying on a similar business, unless there is an agreement between the purchasers and the vendors to the contrary A partner must not, however, use the old partnership name, which is the property of the purchaser of the goodwill, nor may he hold himself out as a successor to the firm or canvass the old customers, even though it appears the old customers may have voluntarily resorted to him. The value of the goodwill is divisible amongst the partners upon the same basis as they share profits and losses.

Sharing Profits after Dissolution.—Where any member of a firm has died or otherwise ceased to be a partner, and the business is continued by the remaining partners without a final settlement of accounts between the firm and the outgoing partner, or his estate, the outgoing partner or his estate is entitled to claim at the option of himself or his representatives either such share of any profits made since the dissolution by the use of the capital of the outgoing or deceased partner, as the Court may determine, or interest at 5 % per annum upon such capital (S 42). Where there is a formal partnership agreement, there is usually a provision entitling, and sometimes requiring, the continuing partners to purchase the share of an outgoing or deceased partner on specified terms. The agreement may, e.g , specify that the accounts are to be prepared upon June 30th or December 31st next following a partner's death or retirement, and the capital and share of profits due to such partner as shown by the accounts are to be paid out in a given number of equal quarterly or half-yearly instalments. In other cases, the partner's share of profits for the broken period are based, by agreement, on the average of the past three years. Or again, it may be agreed that the amount to be paid out is to consist of the balance standing to the credit of the partner's capital account at the date of the last accounts, plus interest at an agreed rate to the date of death or retirement. A specific agreement on this point avoids the trouble and inconvenience of taking stock and preparing accounts for a broken period.

As the student is aware, the Balance Sheet of a firm should show the amount due by the firm to each of the partners. The amount so shown is a simple contract debt, which, apart from special agreement, accrues due at the death or retirement of a partner, or upon the dissolution of a firm, and is subject to the Statute of Limitations.

Rules for Dissolution Accounts.—Section 44 enacts that, when accounts are being settled between partners upon a dissolution, the following rules are to be observed :—

(*a*) Losses, including losses of capital, are to be payable first out of profits, next out of capital, and finally, if necessary, by the partners individually in the same proportions in which they are entitled to share profits.

(*b*) The assets of the firm, including any sums contributed as per Clause (*a*), are to be applied :—

(1) In paying the outside liabilities of the firm.

(2) In repayment to each partner rateably of advances as distinguished from capital.

(3) In repayment to each partner rateably of capital due to him from the firm.

(4) The residue, if any, is to be divided in the proportion in which profits are shared.

With the exception of (1) above, which deals with the rights of third parties, these rules may be modified by the Articles of Partnership. In the event of a deficiency of funds to meet liabilities for partnership loans or capital, the partners must abate rateably.

In the event of the bankruptcy of a partnership, the assets of the firm are applied as joint estate in discharge of the partnership debts, and the separate assets of each partner are applied as separate estate in discharge of his private debts The separate creditors of a partner cannot prove in competition with the creditors of the firm. If there is a surplus of the separate estates, it is treated as part of the joint estate. If there is a surplus of the joint estate, it is treated as part of the respective separate estates in proportion to the right and interest of each partner in the joint estate (*Bankruptcy Act*, 1914, S. 33, ss. 6). But there are some exceptions to this general rule

Partnership Agreements.—As we have seen, it is not imperative that partners should enter into a formal agreement, but it is exceptional in these days for a partnership business to be carried on without the existence of a partnership deed The contents of these agreements naturally vary in accordance with the circumstances and requirements of each particular case. The following matters are usually enumerated in such deeds :—

(1) The names and addresses of the partners and the style of the firm.

(2) A statement of the duration of the partnership. A statement that the death or bankruptcy of individual partners does not dissolve the partnership as between the remainder.

(3) The conditions upon which the partnership may be terminated. The length of notice to be given, etc.

(4) The nature of the business and the locality in which it is to be carried on.

(5) The extent to which the various partners are to apply their time to the partnership affairs. Permission for partners to engage in other affairs, such as the acceptance of directorships in limited companies, etc. The salaries, if any, to be paid to particular partners.

(6) The banking arrangements of the firm. The powers of the various partners as to signing cheques, accepting bills, etc.

(7) The capital of the firm, fixed or otherwise, the proportions in which it is to be provided, and the interest to be allowed thereon. The drawings of the partners, how they are to be limited, the interest (if any) to be charged thereon, and how they are to be treated in the books, i.e. as separate Capital and Current Accounts, and whether interest is to be allowed on the balances of current accounts. A statement that every partner is to refund any sums he may overdraw. Whether any drawings in advance of profits are to be allowed, and, if so, a statement of the amounts of such drawings.

(8) The proportion in which profits or losses—including capital profits or losses—are to be shared.

(9) A statement that proper books and accounts are to be kept. The dates upon which accounts are to be prepared. Where the books are to be kept. The power of all partners to inspect and copy them. Provision for the audit of the accounts A statement that the partners shall be bound by the accounts when signed, with power to rectify any manifest errors subsequently discovered within a reasonable time.

(10) Provision for the preparation of a statement upon the death of a partner, and the terms upon which the surviving partners are to pay out or purchase his share. The period allowed for such payment out or purchase The method of assessing the value of the goodwill when arriving at a partner's share in the event of his retirement or decease. The method of treating the proceeds of, and the premiums upon, survivorship policies (if any)

The share of a deceased partner in the goodwill is not infrequently based upon the share of profits which would have fallen to him in a given period had he lived. In other cases it takes the form of a fixed annuity to his representatives for a given term of years, or the amount payable to them is based upon the deceased partner's share of the average profits of a given period. Sometimes an agreed figure is named in the deed, or, again, the matter is left to arbitration

(11) The terms upon which partners may retire before the expiration of the agreement. A provision that if they so retire they are not to compete in the same trade with the firm within a certain radius

(12) A statement, if considered advisable, as to the limitations to be placed upon the powers of any, or all, of the partners, such as lending the firm's money, entering into bonds, accepting directorships of limited companies, assigning interest in the partnership, entering into contracts in excess of a stipulated sum, and so on.

(13) Provision for dissolution in certain events, such as the insolvency of a partner. Special regulations, if any are desired, as to the application of the partnership funds and assets in the event of a dissolution.

(14) The power of all partners to advertise the due notice of dissolution of the firm.

(15) Power to expel members in certain events. Such power must be express and not implied. In the absence of special powers in the Articles, a partner cannot be expelled, though he can be got rid of by means of a dissolution

(16) Disputes to be referred to arbitration.

If the arbitration clause takes the form of a general submission of all matters in dispute, the powers of the arbitrator would cover such questions as the dissolution of the partnership, the apportionment of the assets, the limitation of the powers of certain partners in carrying on a similar business, and other important matters of a like nature.

Audit.—Partnership firms are not under any statutory obligation to have their accounts audited. This is a matter which is regulated by the partnership deed or by mutual agreement among the partners. It is unnecessary to add that audit is always advisable. The Income Tax Authorities frequently call for properly certified accounts.

PARTNERSHIP ACCOUNTS.

First Steps in Preparing Accounts.—In cases where a properly prepared agreement is in existence, the first essential is to give careful consideration to those clauses which have reference to the accounts. The information which such clauses might be expected to afford will be :—

(1) The basis upon which accounts are to be prepared and the periods they are to cover.

(2) The capital which is to be provided by the various partners.

(3) The regulations as to partners' salaries, withdrawals, interest on capital and drawings, etc.

(4) The proportion in which profits or losses are to be shared.

(5) Any financial arrangements which come into force upon the death or retirement of partners, or the dissolution of the firm.

(6) Provisions for arriving at the amount of goodwill in case of need.

(7) Any financial limitations which may attach to one or all of the partners.

If the partnership agreement is silent upon these or similar matters affecting the accounts, it must be presumed that the provisions of the *Partnership Act*, 1890, apply. We have already seen (SS. 28, 29, and 30) that partners are bound to render true accounts and full information of all matters affecting the partnership, and that the accounts should embrace all transactions connected with, or arising out of, the business of the firm, since no partner is entitled to make personal profits without disclosing them, unless express agreement to the contrary exists.

The period covered by the accounts is of course subject to agreement by the partners, and may be varied at any time by consent Probably annual accounts are prepared in the great majority of cases No special books or systems of book-keeping are prescribed by partnership law. These are matters entirely within the discretion of the partners.

The student will also remember that, *in the absence of an agreement*, (*a*) partners must share profits and losses equally, (*b*) they are not entitled to interest on capital or to a partnership salary; and (*c*) they are entitled to 5 % interest on loans to the firm.

Capital and Current Accounts.—It is an advantage in most cases to keep two distinct accounts for each partner, the one for capital and the other for drawings and other current items. The general assumption of the Partnership Act is that the capital contributed by partners is a fixed amount—variable only as may be mutually agreed—and that it should therefore be recorded apart from current account transactions. In many cases the amount of each partner's capital is fixed by the agreement. The practice of opening fixed capital accounts, and recording all other transactions relating to partners in separate current accounts, is now widely adopted and is growing in favour. It is suggested that the importance of separating these accounts has been emphasised by the ruling in *Garner* v. *Murray*. The *Drawings Account*, or *Current Account*, should be credited with: (1) The partner's share of profits; (2) the interest upon his capital; (3) the partnership salary (if any) due to him; (4) the interest on his loan (if any). The partner's Current Account should be debited with (5) his share of losses; (6) his withdrawals; and (7) the interest thereon If any charges for goods, petty expenses, or similar items accrue against a partner, it is better to open an account in his name in the Sales Ledger, and to transfer the balance at the close of the year to his current account.

An example of a partner's current account in a case where interest at the rate of 5 % is charged upon drawings and allowed upon capital is given at p. 530.

Any credit balance shown by the current account represents undrawn income, and if, and until, it is withdrawn should bear

GEORGE DICKSON.

CURRENT ACCOUNT.

DR. CR.

Date	Particulars.	Folio.	Days	Interest £	s	d.	Drawings £	s.	d.	Date	Particulars	Folio	£	s.	d.
19..										19.					
May 31	To Cash	3	214	5	17	3	200	0	0	Dec. 31	By Share Profits for the year	P.L. 20	700	0	0
Aug. 27	,, Cash	46	126	1	14	6	100	0	0						
Oct. 19	,, Cash	59	73	0	10	0	50	0	0	,, 31	,, Partnership Salary . ..	P.L. 29	100	0	0
,, 26	,, Cash	61	66	2	14	3	300	0	0	,, 31	,, Interest on Capital	J. 10	40	0	0
Dec. 31	,, Cash	92					100	0	0	,, 31	,, Interest on Loan	J. 10	10	0	0
,, 31	,, Interest	J. 101		£10	16	0	10	16	0						
,, 31	,, Transfer from Goods Account	S.L. 4					20	0	0						
,, 31	,, Balance carried down..	√					69	4	0						
							£850	0	0				£850	0	0
										19... Dec. 31	By Balance brought down	√	£69	4	0

interest at an agreed rate in order that the rights of the partners may be equitably adjusted. Sometimes the rate of interest allowed in this respect is lower than that allowed upon the capital account. It is probable that, in the absence of agreement, partners are not strictly entitled to interest on undrawn profits. As a matter of equity, however, the treatment suggested above is clearly correct. By agreement, transfers can always be made from the current to the capital account of a partner in cases where it is desired to increase or decrease the amount of his "fixed" capital.

Loan Accounts.—In cases where loans are advanced by partners to the firm, it is essential that separate loan accounts should be opened. The student will remember that, under the Act of 1890, such loans have priority over capital in case of dissolution It is customary, however, to credit the interest which has accrued due upon loans to the partner's current account.

Interest on Capital.—The usual rate of interest charged upon drawings and allowed in respect of capital is 5 %. It will be obvious to the student that it is necessary to make allowance for interest on capital prior to the division of profits in cases where the capital contributed by the partners is unequal in amount or the profits are shared unequally. In the absence of such allowance, the rights of the partners *inter se* will not be equitably adjusted. Even in cases where the capital contributed is fixed in amount, and profits are shared *pro rata*, it is advisable to provide for interest in order to ascertain the profit made by the business over and above the income which mere investment of the capital might produce, although, of course, the ultimate income of each partner is not affected by the provision. If a private Journal is kept, the interest accrued due at the close of the financial year will be journalised. More commonly, however, the necessary entries are made by means of direct transfers from the debit of the interest on capital account to the credit of the current accounts of the various partners.

The necessity for charging interest upon drawings is particularly emphasised in cases where the drawings take place, as they frequently do, at irregular intervals In cases where drawings of an agreed amount are made at fixed periods, there is no particular advantage in charging interest. A reference to the specimen Current Account given at p. 530 will show that the interest charged runs from the date of the drawing to the close of the period.

Partnership Salaries.—The payment of a partnership salary usually indicates that the salaried partner devotes more time to the business of the firm than his co-partners, or brings superior technical knowledge to its service. Such salaries are, of course, a charge against profits prior to division, and should be credited to the current account of the partner entitled thereto, and debited to the Profit and Loss Account, preferably as the first item in the Appropriation Section

Losses.—In cases where losses occur, they should be debited in the agreed proportions to the partners' current accounts and

MESSRS. GEORGE AND HUGH DICKSON.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19 ..

19...		£	s.	d	19..		£	s	d
Dec. 31	To Office Salaries	395	10	0	Dec 31	By Balance from Trading Account	2,050	10	6
,, 31	,, Office Expenses ..	61	10	0					
,, 31	,, Discount Account	32	8	6					
,, 31	,, Rent, Rates, and Taxes	165	10	6					
,, 31	,, Depreciation on Office Furniture	18	8	8					
,, 31	,, Interest on Loan (George Dickson)	25	0	0					
,, 31	,, Reserve for Bad Debts— As on 31/12/19.. £200 0 0 *Less*, 31/12/19 .. £150 0 0	50	0	0					
,, 31	,, Balance carried down, being net profit for the year	1,302	2	10					
		£2,050	10	6			£2,050	10	6

19..		£	s.	d.	19.		£	s	d.
Dec. 31	To Hugh Dickson, Partnership Salary	100	0	0	Dec 31	By Balance brought down ..	1,302	2	10
,, 31	,, Interest on Capital— £ s. d. George Dickson. 100 0 0 Hugh Dickson .. 50 0 0	150	0	0					
,, 31	,, George Dickson, half share of Profits . 526 1 5								
,, 31	,, Hugh Dickson, half share of Profits.. 526 1 5	1,052	2	10					
		£1,302	2	10			£1,302	2	10

MESSRS. GEORGE AND HUGH DICKSON.

BALANCE SHEET, DECEMBER 31, 19...

	£	s	d	£	s	d	£	s.	d.
Capital:									
George Dickson				2,000	0	0			
Hugh Dickson				1,000	0	0			
							3,000	0	0
Current Accounts —									
George Dickson—									
Balance 1/1/19	51	10	6						
Share of Profits for year ..	526	1	5						
Interest on Capital .. .	100	0	0						
Interest on Loan	25	0	0						
	702	11	11						
Less Drawings	600	0	0						
				102	11	11			
Hugh Dickson—									
Balance 1/1/19	28	0	0						
Share of Profits for year ..	526	1	5						
Interest on Capital . ..	50	0	0						
Partnership Salary	100	0	0						
	704	1	5						
Less Drawings	650	0	0						
				54	1	5			
							156	13	4
Loan Account (G. Dickson)							500	0	0
Sundry Creditors				1,786	4	1			
Bills Payable				150	0	0			
							1,936	4	1
							£5,592	17	5

	£	s	d.	£	s	d.
Furniture and Fittings .. - .. -	218	8	8			
Less Depreciation .. .. - .. - ..	18	8	8			
				200	0	0
Stock . .. - .. - -				1,440	0	0
Sundry Debtors	4,000	0	0			
Less Reserve for Bad Debts	200	0	0			
				3,800	0	0
Cash at Bank	150	0	0			
Cash in hand	2	17	5			
				152	17	5
				£5,592	17	5

for the time being the balances of their accounts, if they remain in debit, will appear on the asset side of the Balance Sheet of the firm. In the absence of direct stipulation to the contrary, the partners are under no obligation to make good the shrinkage in the capital contributed by them as represented by these losses, except, as will be illustrated later on, in cases where such contribution is necessary in order to adjust the rights of the partners upon a dissolution. Equitably, however, if the current account of any partner shows a debit balance, the amount should either be repaid to the firm, or be debited to the relative capital account, or, if the overdrawn account is allowed to remain as a debit in the books of the firm, interest should be charged upon it at the current rate agreed upon.

In illustration of the various transactions mentioned above the Profit and Loss Account and Balance Sheet of a partnership are given at pp. 533–4.

If the capital of the partners in a firm is not fixed in amount, the capital account of each partner would appear in the Balance Sheet as follows:—

Capital:—			
George Roberts:		£	£
As per last Balance Sheet		3,000	
Share of Profits for the year		962	
Interest on Capital		150	
Interest on Loan		100	
		4,212	
Less Drawings	£1,000		
Interest thereon	32		
		1,032	
			3,180

Goodwill and New Partners.

The general aspect of this asset has been considered at pp. 60 to 67. In this place we are only concerned with the proper record of goodwill as and when it may occur in partnership accounts. The majority of private firms make no attempt to assess the value of any goodwill which may attach to their businesses except when compelled to do so by the dissolution of the firm, the death of a partner, or the admission of a new partner. The basis upon which the asset is to be valued in such events has, in most cases, already been determined by the partnership agreement

The student apparently sometimes finds it difficult to grasp the necessity for introducing the element of goodwill into partnership accounts. The difficulty would be removed if it is clearly recognised that such events as the death or retirement of an old partner, or the admission of a new one, have the effect of creating *a new firm*. It is then necessary to bring the value of the goodwill of the business into account in order that the rights of the old and new partners may be equitably adjusted *inter se*. If A, B, and C have built up a successful business, and A dies, it would obviously be inequitable that B and C should succeed to the whole of the goodwill to the exclusion of the representatives of A ? Or

assuming that A, B, and C decide to admit D into partnership, they would naturally demand from the latter some recompense for his being admitted to a share in the goodwill, to which as a member of the firm he would be entitled.

In the majority of cases where goodwill figures in the Balance Sheet of a private firm it has originated from the introduction of a new partner, or from the reconstruction of the firm upon a new basis.

Illustration.—A B, who owns an established business, admits C D into partnership. Profits are to be shared equally. A B's Balance Sheet is as follows.—

BALANCE SHEET.

DR.	£	s	d		CR. £	s	d
Capital	3,000	0	0	Sundry assets	5,000	0	0
Creditors	2,000	0	0				
	£5,000	0	0		£5,000	0	0

The original terms proposed by A B were that £500 was to be paid by the new partner as a premium for admission to the firm, and that a further £1,000 in cash was to be provided by him by way of capital The resources of C D amounted to £1,000 only. This sum he paid in as capital, the premium being satisfied by creating a goodwill account* for £1,000 and crediting a like sum to A B's Capital Account after the admission of C D. The result of this is that A B receives an immediate benefit at the expense of C D by way of interest on capital, and it will be seen that on a dissolution the position of each partner would be the same as if the premium of £500 had been paid in cash. The Balance Sheet of the new firm would appear as follows —

BALANCE SHEET.

DR.	£	s	d.		CR. £	s	d.
Capital:				Sundry assets	5,000	0	0
A B	4,000	0	0	Goodwill	1,000	0	0
C D	1,000	0	0	Cash	1,000	0	0
Creditors	2,000	0	0				
	£7,000	0	0		£7,000	0	0

* C D was to pay £500 for a half share of the goodwill, which must therefore be taken as worth £1,000

In cases where a firm consisting of more than one partner admits a new partner in circumstances similar to those detailed in the above illustration, the amount of the agreed goodwill must be credited to the original partners in the same proportion as that in which they share profits and losses.

If, in the above illustration, C D had been in a position to pay the premium of £500 in cash, there would have been no occasion to open a goodwill account, nor would any record of this part of the transaction appear in the books of the firm. In such circumstances the purchase of a share in the business would become a private matter between A B and C D, and would not affect the books of the firm. When the incoming partner has paid the agreed premium he has no further concern in, or control of, the amount so paid. Premiums of this nature may be said to represent compensation paid to the existing partner for the share of future profits surrendered by him to the newcomer.

Examination questions, when dealing with the admission of a new partner, not infrequently assume circumstances which include the payment by the newcomer of a certain amount into the business by way of capital, and the further payment of a given sum in cash by way of purchase price for a "share of the goodwill." The employment of these or similar words appears to prove a pitfall to many candidates, who proceed to open a goodwill account which they debit with the amount of the agreed premium. For this reason, and at the risk of labouring the point, it seems advisable to point out again that the cash paid by way of premium simply requires division amongst the existing partners and does not necessitate the creation of a goodwill account, nor does it affect the books of the firm, unless it is desired to record the division of the premium between the old partners on the books of the firm, though there is no need to do this as the transaction is a private one and calls for no recognition in the books of the firm.

Illustration.—Robert Rheid and Abel Chatenay, who are equal partners, agree to admit W. A. Richardson into partnership. Richardson is to provide £3,000 as his capital in the business, and is to pay £1,500 by way of purchase price of a share in the goodwill of the firm. The *only* entries which need appear are :—

CASH BOOK.
(Debit Side.)

To W. A. Richardson Capital £3,000

LEDGER.
(Credit Side.)

W A. Richardson's Capital Account.

By Cash £3,000

The £1,500 paid by way of premium to Rheid and Chatenay would be divided by them equally, and need not appear in the books at all. But if it was desired to record the receipt of the premium in the books of the firm, the Cash Book entry would be :—

CASH BOOK.

Dr. Cr.

		£	s.	d.			£	s.	d.
To W A Richardson— Capital		3,000	0	0	By R Rheid (half premium) . .		750	0	0
Premium— R. Rheid (half) £750 A Chatenay (half)750		1,500	0	0	,, A Chatenay (half premium)		750	0	0
		4,500	0	0					

The £3,000 would, of course, be posted to the credit of Richardson's Capital Account, and the £1,500, in equal shares, to the credit of the Capital or Current Accounts of Rheid and Chatenay. The cash payment of £750 to each partner would be treated as an ordinary drawing and posted accordingly. If the premium money was allowed to remain in the business, the entries would be precisely the same, except that the cash payment of £750 each to Rheid and Chatenay would not appear.

If they so desire, the original partners may, of course, leave the premium received from the incoming partner in the business by way of further capital In this event the receipt of the cash is debited in the Cash Book, from whence it is posted to the credit of the capital accounts of the old partners in the proportion in which they share profits.

In some cases the incoming partner stipulates that the amount he pays by way of premium shall be left in the business in order to increase the available working capital.

It is important that the student should realise that a new firm comes into existence upon the admission of a new partner. The old name, books, and business may be continued as before, but a new firm has come into being, one of the members of which is the new partner, who henceforth possesses equal rights with the old partners subject to the partnership agreement and to the proportion in which the capital has been contributed. He also possesses an equal right to his share in the goodwill, although he may have taken no part in its creation.

Goodwill on Death or Retirement of a Partner.

The only remaining events which call for the establishment of a goodwill account in partnership books are the death or retirement of a partner. Faced with events of this kind, there is no scope for the expression of personal views as to the wisdom of introducing the element of goodwill into the partnership accounts. The plain fact must be recognised that a goodwill attaches to the business, and that it is an asset which must be fairly valued and brought into account upon a dissolution. If the continuing partners so desire, they can eliminate the item Goodwill after the dissolution by transfer to their capital accounts. But that is another mattter. It has already been stated that the basis upon which the share of a deceased or retiring partner in the goodwill of the firm is to be ascertained is usually fixed by the partnership deed Upon the happening of the events under consideration, it is sometimes the practice to ascertain the goodwill of the business on the agreed basis, and to open a goodwill account in the books, crediting each partner, including the deceased or retiring partner, with his share. The total sum due to the latter, including his share of the goodwill, is thus ascertained, and should then be paid out to him or his representatives upon the terms laid down by the partnership deed. There is no need, however, in such circumstances, to open a goodwill account.

Let us assume that A, B, and C are in partnership as equal partners. B dies. B's share of the goodwill, based upon three years' average of past profits as provided by the partnership agreement, amounts to £1,500. A and C, upon the death of B, become sole owners of the whole of the goodwill, including the share formerly possessed by B. The simplest plan, therefore, is to credit B's capital account and debit the remaining partners as follows :—

JOURNAL.

		£	s.	d.	£	s.	d.
Sundries—							
To A (Capital Account)		750	0	0			
" C (Capital Account) .. .. Dr.		750	0	0			
" B (Capital Account)					1,500	0	0
Being share of goodwill due to the representatives of B, as per terms of the partnership agreement							

Upon B's death, his share of the goodwill is apportionable between A and C in the same proportion in which they share profits. The transaction takes the form of a purchase of B's share in the goodwill of the business, which will presumably produce corresponding benefits.

Survivorship Assurance Policies.

It is a growing practice for partners to take out a joint policy of assurance for an agreed sum in order that funds may be available when the need arises to pay out a deceased partner's interest without unduly draining the firm of working capital. In such cases the annual premiums become a charge against Profit and Loss. Upon the death of a partner occurring, the money received from the Assurance Company takes the form of an accumulation of undivided profits, and must be credited to the partners, including the deceased partner, in the same proportion in which profits were shared.

Illustration.—The firm of Jamain, Clark & Co. is constituted as follows :—

Partner.	Capital.	Share of Profits.
Paul Jamain	£10,000	One-half.
Stewart Clark	£5,000	One-quarter.
Rene Andre	£5,000	One-quarter.

The partnership deed provides :—

(*a*) That interest at 5 % is to be allowed on partners' capital, and that no interest is to be charged upon drawings.

(*b*) That, upon the death of a partner, the goodwill is to be valued at an amount equal to one year's purchase of the average of the net profits—after charging all proper outgoings, including the assurance premiums—for three years immediately preceding the date of the death of the partner.

(*c*) That a policy for £10,000 is to be taken out on the joint lives of the partners.

The partnership books are closed on December 31st in each year. The annual premium on the assurance policy amounts to £600, and is debited to the Profit and Loss Account annually.

Paul Jamain died on January 3, 19... His drawings for the previous year amounted to £4,000. The trading results of the last three years were as follows: Profit, £6,950; Loss, £1,150; Profit, £4,520.

Prepare an account showing the amount payable to the representatives of Paul Jamain as on the date of death. (See p. 539.)

Share of Late Partner Continued as Loan.—No new book keeping features are presented in cases where the amount due to a deceased partner is left in the business as a loan repayable by agreed instalments with interest at a fixed rate upon the out-

PAUL JAMAIN.

19...		£	s.	d.	19...		£	s	d.
Dec 31	To Drawings	4,000	0	0	Jan. 1	By Balance	10,000	0	0
,, 31	,, Balance carried down	15,480	0	0	Dec. 31	,, Interest for the year at 5 %..	500	0	0
					,, 31	,, Half-share of profits for the year	2,260	0	0
					,, 31	,, Share of Goodwill— Profit . .. .. £6,950; Profit .. .. . 4,520; £11,470; *Less* Loss .. .. 1,150; £10,320; One half share of £3,440 ..	1,720	0	0
					,, 31	,, Share of Assurance Policy ..	5,000	0	0
		£19,480	0	0			£19,480	0	0
					19... Dec. 31	By Balance brought down, being amount due to P. Jamain's representatives	£15,480	0	0

The sum received from the Assurance Company (£10,000) is available in part payment of the amount due as shown above It is usual to include a clause in partnership deeds granting surviving partners the option to pay out sums due to the representatives of a deceased partner over a fixed period. Two years is a usual term, instalments of a fixed proportion of the sum being payable half-yearly, and interest at 5 % being charged on outstanding balances.

standing balances. The balance standing to the credit of the late partner is increased each year by the accrued interest, and decreased by the annual repayment until the account is closed.

Absolute Sale of Business, including Goodwill.

In cases where an absolute sale of a partnership business to a limited company or other purchaser takes place, the purchase price usually includes a sum, based upon past profits, which represents goodwill. So far as the old partners in the firm are concerned, the amount included under this head represents an addition to the profit on the sale, and would be so treated in the final accounts of the firm upon the transfer of the business. No entries arise in this connection which need special mention; indeed, it is probable that no entries relating to goodwill would appear in the books of the partnership, as the books would almost certainly be handed over to the purchasers of the business for readjustment on the basis of the new company. The whole of the profit arising from the sale, including the sum obtained for the goodwill, would be apportioned between the partners upon the same basis as that on which profits were shared.

New Partners and Revaluation of Assets.

The introduction of a new partner is sometimes utilised as a suitable occasion for the revision of the book values of some of the assets of the business. Such a readjustment may be made part of the contract by the new partner For instance, the amounts owing by Sundry Debtors may be revalued. The values placed upon Land and Buildings, Plant, Patents, Trade Marks, Stock, Motors, Horses, Carts, etc., may be reduced or enhanced All these, and similar adjustments, will be treated in the aggregate as a partnership loss or profit, as the case may be, and apportioned as between the old partners of the firm when the settlement of the Balance Sheet of the new firm is under consideration. Such transactions do not present any new problems in book-keeping. It suffices to collect the various depreciations or appreciations in a special account, to which any existing reserves which are available for the purpose would also be transferred. The resulting balance of this account would then be apportioned between the *old* partners on the basis on which they share profits or losses.

In cases where the new partner contributes assets *in kind*, such as Book Debts, Stock, etc., a Journal entry would be drafted debiting the appropriate asset accounts, and crediting the capital account of the new partner with the agreed value of the assets brought in.

It sometimes occurs that an incoming partner may stipulate that the book debts taken credit for in the Balance Sheet of the firm shall be guaranteed by the old partners. In such event care must be taken that due note is made of any bad debts or losses which may occur in connection with these debts, in order that they may be separately recorded and debited, in proper proportions, to the old partners. Other assets or liabilities may also be

the subject of guarantee, in which case due note must be taken of any loss incurred in connection with such assets, or any additional payment that may become necessary in respect of the underestimated liability, and appropriate entries in connection therewith must be made in the capital or current accounts of the guaranteeing partners Similar adjustments become necessary in cases where the profits accruing from specified contracts or purchases, made prior to the new partnership, are reserved for the benefit of the old partners.

Illustration.—Methuen and Audry, who are equal partners, agree to admit Waud into partnership. It is agreed between the parties that £2,000 *is to be added to the book value of the freehold buildings, and that* the values of certain assets, as appearing in the last Balance Sheet of Methuen and Audry, are to be reduced as follows: Stock, £650; Furniture, £120; Patents, £500; Machinery, £600; Sundry Book Debts amounting to £780 are to be written off. By means of Journal entries, the above appreciations and depreciations would be adjusted in the Asset Accounts, and a Revaluation Account would be opened as under:—

REVALUATION ACCOUNT.

DR. CR.

	£	s.	d.		£	s.	d.
To Stock, amount written off ..	650	0	0	By Freehold Buildings, appreciation in value	2,000	0	0
„ Furniture written off	120	0	0	„ Balance carried down	650	0	0
„ Bad Debts written off	780	0	0				
„ Patents written off	500	0	0				
„ Machinery and Plant written off .	600	0	0				
	£2,650	0	0		£2,650	0	0
To Balance brought down	650	0	0	By Transfer to Capital Accounts— Methuen .£325 Audry . .. 325	650	0	0
	£650	0	0		£650	0	0

ANNUITIES AND GOODWILL.

As has already been stated, partnership agreements sometimes provide that, in lieu of the payment of a lump sum by way of a share of goodwill, an agreed annuity is to be paid to the representatives of a deceased partner for a fixed term, or during the life of his widow or other relative. It is the author's experience that in such cases the surviving partners usually prefer to charge the annuity payable to the Profit and Loss Account as an annual expense. It would be legitimate, however, to debit each annual payment when made to a goodwill account, care being taken that the aggregate amount so charged was reasonable in view of the circumstances.

DISSOLUTION.

The dissolution of a partnership may result from one or more of several causes. The expiration of the agreed term, the termination of the enterprise to carry out which it was formed, the death or bankruptcy of a partner, the inability of the partners to work

in harmony, and so forth. The financial process and the book-keeping entries necessary in order to adjust the claims of the various parties are somewhat similar in character to those entailed by the liquidation of a company.

We have already seen that, upon the dissolution of the firm, the assets, when realised, are applicable (1) in discharge of the debts due to outside creditors; (2) in repayment of loans from partners; (3) in repayment of the partners' capital; and (4) that the surplus, if any, is to be distributed amongst the partners in the same proportion in which profits are divided. If the amount realised by the assets is insufficient to meet the outside debts and the partners' loans and capital, it will be clear that a loss has been sustained which must be apportioned in order that the partners' rights *inter se* may be equitably adjusted. The student is again reminded that, under S. 44 of the Act of 1890, losses, including deficiencies of capital, are payable (*a*) out of profits; (*b*) out of capital; and, if necessary, (*c*) by the partners individually in the proportion in which they were entitled to share profits.

In order to show the result of the dissolution, a *Realisation Account* must be opened, in which all the profits or losses arising out of the disposal of the assets are marshalled, together with any expenses which have been incurred. The balance of this account is dealt with by transfer to the capital accounts of the partners in the same manner and proportion as that in which profits or losses were divided. This procedure results in the equitable adjustment of the final figures as between the partners. The balance of cash available will then exactly suffice to repay all the partners the amounts standing to the credit of their respective capital accounts. Should the account of any partner show a debit balance, it will be evident that, upon the basis of the actual realisation figures, he has overdrawn his account, and must pay in the amount necessary to discharge his liability. When he has done this, the total cash available will be the amount which is required to discharge the credit balances of the remaining partners.

The author's experience is that some examination candidates treat the balance of cash, shown to be available on the completion of the realisation, as a profit, and proceed to divide the amount amongst the partners in the agreed proportions in which profits are shared. But the student must, clearly grasp the fact that *it is the profit or loss which must be apportioned,* and not the cash realised by the sale of the assets. It should not be necessary to point out that, if the accounts have been properly prepared, the amounts due to the partners are already shown in their capital accounts, the balance of which will be exactly discharged by the cash shown as available by the Cash Book.

Retiring Partner. Revaluation of Assets.

If the dissolution involves the retirement of one only of several partners, the dissolution accounts will probably, in most cases, be based upon the strict revaluation of all the assets, no actual

Illustration.—X, Y, and Z are equal partners. X desires to retire, and gives notice to this effect under the terms of the partnership deed. Y and Z decide to continue the business. The Balance Sheet of the firm at the date of dissolution is as follows :—

X, Y, Z.

BALANCE SHEET.

	£ s d	£	s.	d		£	s	d.
Capital :—					Freehold Property	5,000	0	0
X	5,000 0 0				Plant and Machinery . .	2,000	0	0
Y	3,000 0 0				Patents	400	0	0
Z	2,000 0 0				Sundry Debtors	4,000	0	0
		10,000	0	0	Stock	2,000	0	0
Reserve Account		1,000	0	0	Cash at Bank	1,800	0	0
Sundry Creditors		4,200	0	0				
		£15,200	0	0		£15,200	0	0

For the purposes of dissolution the following revaluations are agreed upon · Freehold Property, £5,800 ; Plant and Machinery, £1,400 ; Sundry Debtors, £3,100 ; Stock, £1,800 ; Patents, nil. The Goodwill of the business was agreed at £1,500.

A Dissolution Account should be opened in the books, and the following entries would be made :—

JOURNAL.

	£	s.	d.	£	s.	d.
Freehold Property . . .. Dr.	800	0	0			
To Dissolution Account				800	0	0
For appreciation of this asset.						
Dissolution Account .. .. Dr.	2,100	0	0			
To Sundries .—						
Plant and Machinery				600	0	0
Patents				400	0	0
Sundry Debtors				900	0	0
Stock				200	0	0
For depreciation or losses on these assets.						
Reserve Account .. .. Dr.	1,000	0	0			
To Dissolution Account				1,000	0	0
Transfer of balance of this account						
Goodwill Account .. .. Dr.	1,500	0	0			
To Dissolution Account				1,500	0	0
Being agreed value of Goodwill.						
	£5,400	0	0	£5,400	0	0

DR. DISSOLUTION ACCOUNT. CR.

	£	s	d.		£	s.	d.
To Plant and Machinery Depreciation ..	600	0	0	By Freehold Property (appreciation)	800	0	0
„ Stock Depreciation	200	0	0	„ Reserve Fund (transfer)	1,000	0	0
„ Sundry Debtors, Bad Debts	900	0	0	„ Goodwill (agreed value)	1,500	0	0
„ Patents written off	400	0	0				
„ Balance carried down	1,200	0	0				
	£3,300	0	0		£3,300	0	0
To X, share of profit on revaluation . ..	400	0	0	By Balance brought down	1,200	0	0
„ Y, share of profit on revaluation ..	400	0	0				
„ Z, share of profit on revaluation	400	0	0				
	£1,200	0	0		£1,200	0	0

The sum payable to X would therefore be £5,400, viz. £5,000, the amount of his capital, plus £400, his share of the profit arising from the revaluation of the assets.

realisation and distribution being involved. In this manner the amount due to or from a retiring partner will be ascertained, and will become a liability due from the continuing members of the firm or from the late partner, as the case may be. An account prepared for this purpose, and upon this basis, practically becomes a statement of affairs. The resulting surplus or deficiency shown by the account is apportioned as between the partners. *See* illustration on p. 543.

DEATH OF PARTNER. VALUATION OF GOODWILL.

If the dissolution arises from the death of one of the partners, it may become necessary, either equitably or in pursuance of the partnership agreement, to prepare a revaluation account upon the above lines. In such case the goodwill must be valued upon the basis determined by the partnership agreement, the remaining adjustments being dependent upon the circumstances.

Adopting the illustration on p. 543 again, and assuming that X was the deceased partner, the resulting surplus or deficiency would be apportioned between the partners as illustrated above, and the amount due to the deceased partner (X) thus ascertained. If the continuing partners (Y and Z) desire to revert to the old book values, they could do so by reversing the entries appearing in the Dissolution Account. This procedure would of course make it necessary to write back the profit of £1,200 credited to the three partners As X is no longer a partner, the £1,200 would be debited in equal shares to the capital or current accounts of Y and Z. Sometimes the Dissolution (or Revaluation) Account is not entered in the books at all, but prepared as a memorandum only in order to ascertain a deceased partner's share of the revaluation. The deceased partner's share is then credited to him and debited to the continuing partners in the proportion in which they share profits, or to goodwill.

CESSATION OF BUSINESS SALE OF ASSETS.

Reference must also be made to those cases where, owing to the sale of the business, disagreement, death, or other causes of dissolution, the winding up of the firm and the realisation of the assets becomes necessary.

In all such cases a Realisation Account must be opened and employed as a medium for combining the results of the dissolution and adjusting the final figures as between the partners.

The amount properly ascertained as due to the representatives of a deceased partner is not a partnership debt, but a liability to be borne proportionately by each member of the firm individually (S. 43). It is thus a simple contract debt, which accrues at the date of the deceased partner's death and is barred after six years by the Statute of Limitations. This may well operate unfairly in some circumstances, but it can be nullified by including proper provisions in the partnership agreement. In this connection the professional student will find it profitable to study the case of *Elliott* v. *Elliott* (45 Accountant Law Reports, 47). See *Higher Book-keeping and Accounts*, p. ·215.

Probably the simplest aspect of dissolution, from the book-keeper's standpoint, is the sale of a business by the partners to a limited company or other purchaser, for an agreed inclusive price.

Illustration —L. Ricard and L. Van Houtte, who are equal partners, agree to sell their business to Bater and Blanche, Ltd The company was to take over the assets and assume the liabilities (including the loan) of the firm as on December 31, 19.., at an agreed purchase price of £60,000.

After closing the Profit and Loss Account for the year 19. , the Balance Sheet of the firm was as follows:—

RICARD AND VAN HOUTTE.

BALANCE SHEET, DECEMBER 31, 19...

DR.	£	s.	d		£	s	d. CR.
Capital—				Freehold works	22,000	0	0
L Ricard	25,000	0	0	Plant and Machinery	12,500	0	0
L. Van Houtte	20,000	0	0	Patents	500	0	0
Loan (L Ricard) and accrued				Fixtures and Fittings	1,850	0	0
interest	5,573	0	0	Stock in hand	12,820	0	0
Sundry Creditors	9,748	0	0	Sundry Debtors	9,641	0	0
				Cash at Bank	1,000	0	0
				Cash in hand	10	0	0
	£60,321	0	0		£60,321	0	0

Apart from any expenses which may have been incurred in connection with the transfer, the Realisation Account would appear as under upon the completion of the purchase:—

REALISATION ACCOUNT.

DR	£	s	d		£	s.	d. CR
To Sundry Assets	60,321	0	0	By Sundry Creditors	9,748	0	0
„ Balance carried down being profit on the sale	15,000	0	0	„ Loan	5,573	0	0
				„ Bater & Blanche, Ltd (purchase price)	60,000	0	0
	£75,321	0	0		£75,321	0	0
To L Ricard	7,500	0	0	By Balance brought down	15,000	0	0
„ L. Van Houtte	7,500	0	0				
	£15,000	0	0		£15,000	0	0

If the purchase consideration had been payable in shares and cash, or shares, debentures and cash, the debentures and shares would be divided *in kind* in proportion to the final balances due to the partners, or in proportion to their capital, or on any other basis agreed upon between them.

Assuming that, in the above example, the purchase price had been payable as to £30,000 in Ordinary Shares of £1 each and as to the balance (£30,000) in cash (the shares to be divided between the partners in proportion to their capital), the following accounts would appear in the Ledger:—

LEDGER.

BATER AND BLANCHE, LTD

DR.	£	s.	d		£	s.	d CR
To Purchase Price	60,000	0	0	By Cash	30,000	0	0
				„ Ordinary Shares	30,000	0	0
	£60,000	0	0		£60,000	0	0

Ordinary Shares Account.

Dr.	£	s	d.	Cr.	£	s	d
To Bater & Blanche, Ltd	30,000	0	0	By L. Ricard, five-ninths	16,666	13	4
				,, L Van Houtte, four-ninths . . .	13,333	6	8
	£30,000	0	0		£30,000	0	0

L. Ricard, Capital Account.

Dr.	£	s	d	Cr.	£	s	d
To Ordinary Shares ..	16,666	13	4	By Balance .	25,000	0	0
,, Cash	15,833	6	8	,, Realisation Account	7,500	0	0
	£32,500	0	0		£32,500	0	0

L. Van Houtte, Capital Account.

Dr.	£	s.	d	Cr.	£	s.	d
To Ordinary Shares ..	13,333	6	8	By Balance ..	20,000	0	0
,, Cash .. .	14,166	13	4	,, Realisation Account	7,500	0	0
	£27,500	0	0		£27,500	0	0

CASH BOOK

Dr	£	s	d	Cr	£	s	d.
To Bater & Blanche, Ltd.	30,000	0	0	By L Ricard . ..	15,833	6	8
				,, L. Van Houtte ..	14,166	13	4
	£30,000	0	0		£30,000	0	0

Note.—In actual practice shares cannot, of course, be subdivided, and the partners would arrange for one of them to take the marginal share, e.g. one taking 16,667 shares and the other 13,333 shares, the entries and cash payment being modified accordingly.

Had the partners decided to divide the shares in proportion to their final balances, Ricard would take $\frac{325}{600}$ths of the shares, i e. 16,250 shares, and Van Houtte $\frac{275}{600}$ths, i.e. 13,750 shares, the entries and cash payment being modified accordingly.

Profit or Loss on Realisation.

Where dissolutions are effected by actual sale of the assets and discharge of the liabilities, either (*a*) a profit, or (*b*) a loss may occur.

(*a*) **Where a Profit is Made.**—The Realisation Account in these cases partakes of the nature of a Profit and Loss Account, although, of course, it deals with the sale of assets and the discharge of liabilities. If the asset accounts are numerous, it is the practice to credit each account with the proceeds and to transfer the balance only to the Realisation Account. For text-book and examination purposes it is more convenient to transfer all the asset accounts, by means of a Journal entry, to the debit of the Realisation Account, and to credit the proceeds of the various sales to the same account, showing the final balance to be divided between the partners.

Procedure for Dealing with a Dissolution Problem.

(1) Open Ledger accounts for each asset and for the Sundry Creditors and any other liabilities. [*Note*—In examination work, if the assets are numerous, it will save time to debit the Realisation Account with the *total* of Sundry Assets, crediting the same account with the total sum realised]

(2) Close all the asset accounts, except the cash, by transfer to Realisation Account.

(3) Debit the Cash with the proceeds of all assets when realised, and credit Realisation Account.

(4) Credit Cash with the liabilities when discharged and debit the liability accounts.

(5) Credit Cash with the expenses of realisation and debit Realisation Account.

(6) Debit the partners' Capital Accounts with any assets taken over by them at an agreed price, and credit Realisation Account.

(7) Credit or debit the partners' capital accounts with their proportion of the profit or loss upon realisation as the case may be.

(8) The cash balance available should then exactly equal the aggregate balances shown by the capital accounts of the partners.

Illustration—David McKee and Edward Mawley decide to wind up their business and retire Profits and losses are shared as to two-thirds to McKee and one-third to Mawley. Their Balance Sheet, as on December 31, 19 , was as follows:—

BALANCE SHEET, DECEMBER 31, 19. .

DR.	£	s	d		£	s	d CR.
Capital—				Freehold Works	5,800	0	0
D. McKee	15,000	0	0	Plant and Machinery	3,550	0	0
E. Mawley	5,000	0	0	Sundry Debtors	6,231	0	0
Sundry Creditors	1,730	0	0	Stock in hand	3,149	0	0
				Cash at Bank	3,000	0	0
	£21,730	0	0		£21,730	0	0

The amounts realised were as follows: Freehold Works, £7,500; Plant and Machinery, £2,980; Sundry Debtors, £5,982, Stock, £3,000. The expenses of realisation amounted to £100. McKee took over a motor-car (included in the Plant in the Balance Sheet) at a valuation of £100. Prepare the necessary accounts.

DAVID MCKEE, CAPITAL ACCOUNT.

DR.	£	s	d.		£	s	d CR.
To Motor Car	100	0	0	By Balance	15,000	0	0
„ Balance carried down	15,388	0	0	„ Realisation Account	488	0	0
	£15,488	0	0		£15,488	0	0
To Cash	15,388	0	0	By Balance brought down	15,388	0	0

EDWARD MAWLEY, CAPITAL ACCOUNT.

Dr	£	s	d.		Cr £	s	d
To Balance carried down	5,244	0	0	By Balance	5,000	0	0
				,, Realisation Account	244	0	0
	£5,244	0	0		£5,244	0	0
To Cash	5,244	0	0	By Balance brought down	5,244	0	0

REALISATION ACCOUNT.

Dr	£	£	s	d.	Cr	£	£	s	d
To Sundry Assets—					By Cash—				
Freehold Works ..	5,800				Freehold Works ..	7,500			
Plant and Machinery ..	3,550				Plant and Machinery ..	2,980			
Sundry Debtors ..	6,231				Stock .. .	3,000			
Stock .	3,149	18,730	0	0	Sundry Debtors ..	5,982	19,462	0	0
,, Expenses of Realisation		100	0	0	,, D McKee (motor car)..		100	0	0
,, Balance carried down, being profit on realisation ..		732	0	0					
		£19,562	0	0			£19,562	0	0
To D McKee, two-thirds . .	488				By Balance brought down		732	0	0
,, E. Mawley, one-third	244	732	0	0					
		£732	0	0			£732	0	0

FREEHOLD WORKS.

Dr.	£	s	d.	Cr	£	s.	d.
To Balance	5,800	0	0	By Transfer to Realisation Account ..	5,800	0	0

PLANT AND MACHINERY.

Dr	£	s	d.	Cr.	£	s	d.
To Balance	3,550	0	0	By Transfer to Realisation Account ..	3,550	0	0

SUNDRY DEBTORS.

Dr.	£	s	d	Cr.	£	s.	d.
To Balance	6,231	0	0	By Transfer to Realisation Account ..	6,231	0	0

STOCK IN HAND.

Dr.	£	s.	d.	Cr.	£	s.	d.
To Balance	3,149	0	0	By Transfer to Realisation Account .	3,149	0	0

CASH BOOK (BANK).

Dr.		£	s.	d.	Cr.	£	s.	d.
To Balance ..		3,000	0	0	By Sundry Creditors	1,730	0	0
„ Freehold Works, proceeds sale .	£ 7,500				„ Expenses of realisation	100	0	0
„ Plant and Machinery, proceeds sale	2,980				„ D. McKee ..	15,388	0	0
„ Stock, proceeds sale ..	3,000				„ E. Mawley	5,244	0	0
„ Sundry Debtors, amount collected .	5,982	19,462	0	0				
		£22,462	0	0		£22,462	0	0

(*b*) **Where a Loss is Made.**—By way of further illustration another case, resulting in a loss upon realisation, may be useful.

Illustration.—C Worth and R. d'Arblay are equal partners. They decide to dispose of their assets and retire from business. Their Balance Sheet as on December 31, 19.., was as follows :—

BALANCE SHEET, DECEMBER 31, 19. .

Dr.	£	s	d			£	s	d.
Capital—				Leasehold Premises. . ..		3,000	0	0
C. Worth	5,000	0	0	Plant and Machinery		2,850	0	0
R d'Arblay	4,800	0	0	Stock in hand .. .		1,322	0	0
Sundry Creditors	2,684	0	0	Sundry Debtors	£4,800			
				Less Reserve for Bad Debts ..	250	4,050	0	0
				Cash at Bank		1,262	0	0
	£12,484	0	0			£12,484	0	0

The result of the realisation of the assets was as follows: Leasehold Premises, £2,800; Plant, £1,950; Stock, £1,240; Sundry Debtors, £3,985. The goodwill of the business realised £500. The expenses amounted to £160 Prepare the necessary accounts.

There is no need to show all the individual Ledger accounts, since they are similar to those given in the preceding illustration. The more important accounts would appear as follows —

REALISATION ACCOUNT.

Dr	£	s.	d.	Cr	£	s.	d
To Loss on Realisation of—				By Proceeds of Goodwill . ..	500	0	0
Leasehold Premises	200	0	0	„ Reserve for Bad Debts	250	0	0
Plant and Machinery	900	0	0	„ Balance carried down	907	0	0
Stock	82	0	0				
Sundry Debtors .	315	0	0				
„ Expenses . .	160	0	0				
	£1,657	0	0		£1,657	0	0
To Balance brought down	907	0	0	By C Worth (half loss)	453	10	0
				„ R d'Arblay (half loss) . ..	453	10	0
	£907	0	0		£907	0	0

CASH AT BANK.

Dr.	£	s.	d.	Cr.	£	s.	d.
To Balance	1,262	0	0	By Sundry Creditors	2,684	0	0
,, Proceeds Realisation—				,, Expenses .. .	160	0	0
,, Leasehold Premises	2,800	0	0	,, Balance carried down	8,893	0	0
,, Plant and Machinery	1,950	0	0				
,, Stock	1,240	0	0				
,, Sundry Debtors .	3,985	0	0				
,, Goodwill ..	500	0	0				
	£11,737	0	0		£11,737	0	0
To Balance brought down	8,893	0	0	By C Worth .. .	4,546	10	0
				,, R d'Arblay .. .	4,346	10	0
	£8,893	0	0		£8,893	0	0

C. Worth.

Dr	£	s	d	Cr.	£	s.	d
To Realisation Account	453	10	0	By Balance ..	5,000	0	0
,, Balance carried down	4,546	10	0				
	£5,000	0	0		£5,000	0	0
To Cash	4,546	10	0	By Balance brought down . .	4,546	10	0

R. d'Arblay.

Dr.	£	s.	d	Cr.	£	s	d
To Realisation Account	453	10	0	By Balance	4,800	0	0
,, Balance carried down .	4,346	10	0				
	£4,800	0	0		£4,800	0	0
To Cash	4,346	10	0	By Balance brought down	4,346	10	0

(c) **Loss upon Realisation. One partner's Capital Account in Debit.**—As previously explained, if the Capital Account of any partner discloses a debit balance as a result of the realisation of the assets of the firm upon a dissolution, such partner must pay in a sum sufficient to discharge his liability in order that the remaining partners may receive the amounts standing to the credit of their capital accounts. It will not be necessary to repeat full illustrative detail again, but the more important accounts are given in the following .—

Illustration.—L. Poncet, M Margotten and M. Soupert share profits as to one-half, one-third, and one-sixth respectively. They dissolve partnership and realise the assets. The cash at the Bank amounted to £1,000. After paying the expenses of the realisation, the remaining assets realised £4,200 net. The net loss upon realisation amounted to £1,800

At the date of the dissolution the capital of the partners was as follows: L. Poncet, £3,000 , M. Margotten, £1,000 ; and M. Soupert, £200. The amount owing to Sundry Creditors was £2,800.

REALISATION ACCOUNT.

Dr.	£	s	d	Cr.	£	s	d
To Loss on Realisation	1,800	0	0	By L Poncet ..	900	0	0
				„ M. Margotten	600	0	0
				„ M. Soupert	300	0	0
	£1,800	0	0		£1,800	0	0

L. Poncet.

Dr	£	s.	d.	Cr.	£	s.	d.
To Loss on Realisation	900	0	0	By Balance	3,000	0	0
„ Cash	2,100	0	0				
	£3,000	0	0		£3,000	0	0

M. Margotten.

Dr	£	s	d	Cr	£	s.	d.
To Loss on Realisation	600	0	0	By Balance	1,000	0	0
„ Cash	400	0	0				
	£1,000	0	0		£1,000	0	0

M. Soupert.

Dr	£	s.	d	Cr.	£	s	d.
To Loss on Realisation	300	0	0	By Balance	200	0	0
				„ Cash	100	0	0
	£300	0	0		£300	0	0

CASH AT BANK.

Dr	£	s.	d.	Cr	£	s	d.
To Balance	1,000	0	0	By Sundry Creditors ..	2,800	0	0
„ Realisation of Assets	4,200	0	0	„ L Poncet	2,100	0	0
„ M. Soupert, cash paid in	100	0	0	„ M. Margotten	400	0	0
	£5,300	0	0		£5,300	0	0

It is possible, of course, for the loss upon realisation to be so serious that each partner has to bring in cash in order that the outside creditors may be paid in full. In such event the loss on realisation, when debited to the partners' capital accounts, will disclose the amount payable by each partner. When those amounts have been received, and duly debited in the Cash Book, a balance of cash exactly sufficient to meet the liabilities will be available.

(*d*) **Loss on Realisation. One or more Partners Insolvent.**—The fact that special treatment is necessary in the above circumstances arises from the decision given by Mr. Justice Joyce in 1903 in the case of *Garner* v. *Murray*, [1904] 1 Ch. 57. This

much-discussed decision has reached such a degree of importance —in examination work at any rate—that a brief résumé of the case is advisable.

Garner, Murray, and Wilkins were in partnership under a parol agreement. The capital of the firm was to be contributed in certain unequal proportions, but profits or losses were to be shared equally. The partnership was dissolved by an Order as on June 30, 1900. At that date the following amounts were due to the partners :—

	Capital.	Loan.
	£ s. d.	£ s. d.
Garner..	2,500 0 0	266 16 10
Murray	314 3 4	147 9 8

After discharging all the liabilities of the firm, including loans from partners, the available assets were insufficient to meet the partners' capital, the deficiency, including the amount due from Wilkins, being £897 3s. 8d. The partner Wilkins was indebted to the firm to the extent of £263. He was insolvent, and was unable to contribute anything. The question before the Court was the proper division of the available funds.

The student would say that, left to his own devices, the accountant (guided by S. 44 of the 1890 Act) would have added Wilkins's share of the deficiency (£263) to the firm's deficiency (£635), and would then have divided the aggregate loss (£898) between the solvent partners in the same proportion in which they shared profits. From the accountant's standpoint it is submitted that this is the logical treatment.

Counsel quoted S. 24, ss. 1 of the Act, which says that "all partners must contribute equally towards the losses, whether of capital or otherwise," and S. 44 (a): "Losses, including losses and deficiency of capital shall be paid . . . by the partners individually in the proportion in which they were entitled to share profits." *Lindley on Partnership* was also quoted to the effect that "a deficiency of capital must be treated like any other loss."

Mr Justice Joyce ruled that, after fulfilling all obligations to outside creditors, losses sustained by some of the partners owing to the default of another member of the firm must not be treated as a partnership loss to be borne in the ratio in which profits or losses were shared, but as a loss to be borne by the individual solvent partners rateably according to the amount of capital standing to their credit in the books of the firm, after taking into account the contributions made by them towards any deficiency of capital. The effect of this ruling was that the firm's deficiency (£635) was held to be divisible amongst all the partners in the same ratio in which profits or losses were shared—i.e. equally—whereas Wilkins's deficiency (£263) was to be borne by the two solvent partners in proportion to the credit balances of their capital accounts. The learned Judge said that he "found nothing in Section 44 to make a solvent partner liable to contribute for

an insolvent partner who fails to pay his share," and that "when the Act says losses are to be borne equally it means losses sustained by the firm; it cannot mean that the individual loss sustained by each partner is to be equal in amount," and finally that "the assets must be applied in paying to each partner rateably what is due from the firm to him in respect of Capital Account, due account being taken of the equal contributions to be made by him towards the deficiency of capital."

It is difficult for an accountant to follow this distinction between inside and outside losses, and the decision has given rise to much discussion in the profession. It is not considered profitable to follow here all the ground covered by the arguments which have been urged. Some accountants hold that the solvent partners should actually bring in cash to meet their proportionate share of the loss, others contend that it is sufficient to bring their contributions into account merely. In the author's opinion the former method is the more deserving of commendation.

Briefly, it may be stated that the ruling appears to be:—

> That in cases where there is an insolvent partner who is unable to make good his share of the deficiency arising from a dissolution, the liability of each solvent partner is limited to making good his share of the deficiency in the ordinary way. The further loss arising from the insolvency of the defaulting partner must be borne by the solvent partners in proportion to their capital, and is not divisible as an ordinary firm loss.

Procedure in Garner *v.* Murray.—In order to arrive at the result required by the above ruling, the procedure is as follows: Prepare a Realisation Account in the ordinary way. Divide the deficiency between the partners in the proportions in which profits or losses were shared. Open a Capital Account for each partner, crediting him with his capital and debiting him with his share of the firm's deficiency as shown by the Realisation Account. Rule off the insolvent partner's Capital Account, and bring down the (debit) balance, which represents the deficiency of the insolvent partner. Such deficiency constitutes for the solvent partners a further loss which must then be apportioned between them in proportion to their respective Capital Accounts. The Capital Account balances to be used as the basis for dividing up the insolvent partner's deficiency among the solvent partners are: (*a*) the original capitals of the solvent partners—if these have remained unaltered at a fixed sum down to the dissolution; or (*b*) if the original capitals have been varied from time to time by agreement or periodical accounting between the partners, then the capitals as they stood after the last such variation before the dissolution.

Example—A, B, and C are equal partners. Dissolution takes place C is bankrupt. A Realisation Account is prepared, and the deficiency is debited in equal shares to the three partners, whose Capital Accounts, original and final, stood as follows:—

	Original Capital.		Capital Account Balance after debiting share of loss on Dissolution Realisation.	
		£		£
A	Credit Balance	4,000	Credit Balance	3,000
B	Credit Balance . .	2,000	Credit Balance	1,000
C	Credit Balance .. .	600	Debit Balance	400

The deficiency shown by C's account (£400) must be divided as to £266 13s. 4d (two-thirds) to A, and as to £133 6s. 8d. (one-third) to B. The balance of cash in hand will then exactly suffice to pay out to the two solvent partners, and, when posted, will close the books.

Illustration.—V. Verdier, M. Neil, and W. A. Richardson were in partnership, and shared profits as to one-half to Verdier, one-third to Neil, and one-sixth to Richardson. They decided to dissolve partnership as on December 31, 19... During the realisation of the assets Richardson was adjudicated a bankrupt. His estate proved insufficient to meet the preferential debts, no contribution from him towards his share of the firm's deficiency was therefore possible.

The Balance Sheet of the firm as on December 31, 19 ., was as under. The Capital Accounts of the partners were originally: V. Verdier, £10,000; M. Neil, £8,000; and W. A. Richardson, £1,000; but by subsequent yearly adjustments made by agreement between the partners at the annual accounting periods, the Capital Account balances had been reduced to those shown in the Balance Sheet subjoined:—

BALANCE SHEET, DECEMBER 31, 19...

DR CR

	£	s.	d.		£	s.	d.
Capital—				Leasehold Factory .. .	3,000	0	0
V Verdier .. .	6,000	0	0	Plant and Machinery .. .	2,800	0	0
M. Neil	3,000	0	0	Patents	1,000	0	0
Sundry Creditors	5,214	0	0	Fixtures and Fittings . ..	320	0	0
				Stock	2,680	0	0
				Sundry Debtors	3,214	0	0
				Cash	1,000	0	0
				W. A. Richardson, Capital Account overdrawn	200	0	0
	£14,214	0	0		£14,214	0	0

The assets, other than Cash, realised the following amounts: Leasehold, £2,460; Plant and Machinery, £2,000, Patents, nil; Fixtures, £100; Stock, £2,000; Book Debts, £2,720. A contingent liability, amounting to £200, not provided for in the above Balance Sheet, materialised during the realisation. The expenses of realisation amounted to £62. Close the books of the firm in accordance with the ruling in *Garner* v. *Murray*.

REALISATION ACCOUNT.

DR CR

	£	s	d		£	s	d.
To Loss on Realisation of Assets . .	3,734	0	0	By Deficiency— V Verdier (one-half)	1,998	0	0
,, Contingent liability matured	200	0	0	M. Neil (one-third)	1,332	0	0
,, Expenses .. .	62	0	0	W. A Richardson (one-sixth) . ..	666	0	0
	£3,996	0	0		£3,996	0	0

CASH BOOK.

Dr.	£	s.	d.		£	s.	d. Cr.
To Balance .. .	1,000	0	0	By Sundry Creditors ..	5,214	0	0
,, Sundry Assets—Amount realised ..	9,280	0	0	,, Realisation Account: Expenses . £62; Contingent liability 200	262	0	0
				,, Balance carried down	4,804	0	0
£	10,280	0	0	£	10,280	0	0
To Balance brought down . . .	4,804	0	0	By V. Verdier	3,424	13	4
				,, M. Neil	1,379	6	8
	£4,804	0	0		£4,804	0	0

V. Verdier, Capital Account.

Dr.	£	s.	d.		£	s.	d. Cr.
To Realisation Account (share of loss)	1,998	0	0	By Balance	6,000	0	0
,, Balance carried down	4,002	0	0				
	£6,000	0	0		£6,000	0	0
To Share of Loss on W. A. Richardson's Account ($\frac{6000}{9000}$ths) ..	577	6	8	By Balance .. .	4,002	0	0
,, Cash	3,424	13	4				
	£4,002	0	0		£4,002	0	0

M. Neil, Capital Account.

Dr.	£	s.	d.		£	s.	d. Cr.
To Realisation Account (share of loss) .	1,332	0	0	By Balance	3,000	0	0
,, Balance carried down	1,668	0	0				
	£3,000	0	0		£3,000	0	0
To Share of Loss on W. A. Richardson's Account ($\frac{3000}{9000}$ths)	288	13	4	By Balance brought down	1,668	0	0
,, Cash .	1,379	6	8				
	£1,668	0	0		£1,668	0	0

W. A. Richardson, Capital Account.

Dr.	£	s.	d.		£	s.	d. Cr.
To Balance . ..	200	0	0	By Balance carried down	866	0	0
,, Realisation Account (share of loss) .. .	666	0	0				
	£866	0	0		£866	0	0
To Balance brought down	866	0	0	By V. Verdier ($\frac{6000}{9000}$ths)	577	6	8
				,, M. Neil ($\frac{3000}{9000}$ths) .	288	13	4
	£866	0	0		£866	0	0

Bankruptcy of Partners.

The general outlines of bankruptcy procedure as regards both individuals and partners are dealt with in Chapter X. It has already been stated that, subject to agreement to the contrary, the bankruptcy of a partner dissolves the partnership as regards all partners (S. 33). The contingency of insolvency may have been provided for in the articles, and arrangements made for the continuance of the firm, but the interest of the bankrupt partner vests in his trustee, and must be duly accounted for. Of course, if all the partners are insolvent, the ordinary bankruptcy proceedings, as described in Chapter X, may be taken against the firm as a whole.

The separate estate of each partner is primarily liable for the relative private debts, the joint estate being liable in the first instance for the debts of the firm. Any surplus from the separate estates of partners is dealt with as part of the joint estate, and *vice versa* (*Bankruptcy Act*, 1914, SS. 33 (6) and *Bankruptcy Rules* 120, 292–6). As a general rule the proceedings are consolidated, and joint meetings of all the creditors are called.

The student must clearly understand that the bankruptcy of a partner, in respect of his private affairs, does not necessarily involve the bankruptcy of the firm, nor does such a bankruptcy automatically dissolve the partnership if the partnership agreement provides to the contrary.

If there is no joint estate and all the partners are insolvent, the joint creditors will rank *pari passu* with the separate creditors for dividend purposes.

Limited Partnerships.

Under *Bovill's Act*, 1865 (afterwards repealed and re-enacted in SS. 2 and 3 of the *Partnership Act*, 1890), it became possible to lend money in return for a share of profits without incurring liability for partnership risks. Such loans could, however, only be made to individuals, and not to firms. It was also necessary, in order to escape liability to outside creditors, to avoid any act which might be construed as legal "interference" with the management of the business. Moreover, such loans were deferred, in the event of insolvency, until all the other creditors had been satisfied. These provisions are not affected by the Limited Partnership Act and still hold good, but such advances do not constitute the lender a partner, but a deferred creditor.

Since the *Limited Partnership Act*, 1907, came into operation, it has been possible to make loans to a partnership firm in return for a share in the profits of a business. *Limited Partnership Rules*, 1907, have also been issued by the Board of Trade under the power contained in S 17 of the Act.

Limited Use of the Act.—It is the author's experience that very little use has been made of this Act. The advantages offered by the registration of private companies have proved so attractive that the Act has been largely neglected. For these reasons it is

not proposed to devote any further space to the Act than is required briefly to enumerate its chief essentials.

Registration.—Registration of limited partnerships with the Registrar of Joint Stock Companies is compulsory, and is effected by sending to the Registrar a statement, signed by the partners, giving: (*a*) The firm name; (*b*) the general nature of the business; (*c*) the principal place of business; (*d*) the full name of each of the partners; (*e*) the term of the partnership and the date of its commencement; (*f*) a statement that the partnership is limited; (*g*) the sum contributed by each limited partner, and whether paid in cash or how otherwise.

Notification of any change which may take place in the above particulars must be filed with the Registrar within seven days.

A registration fee of £2 is payable, coupled with stamp duty of £1 for every £100, or fraction of £100, of the capital contributed by limited partners. A fee of 5s. is payable upon the registration of any change in the original particulars. The register of limited partnerships is kept by the Registrar of Joint Stock Companies, and may be inspected upon payment of a fee of 1s.

General and Limited Partners.—A limited partnership may consist of one or more "general partners," whose liability for the debts and obligations of the firm is unlimited, and one or more "limited partners," whose liability is limited to the sums which they have agreed to contribute as capital. There must be at least one partner of each class in the partnership. No limited partnership may consist of more than twenty members, or, in the case of a Bank, of more than ten members.

Rights of Limited Partners.—A limited partner may increase his holding in the firm, but no partnership rights attach to the investment beyond the privilege, granted by S. 6, ss. 1, to "inspect the books of the firm, examine into the state and prospects of the business," and advise the partners thereon With this exception, a limited partner is not entitled to take part in the management of the firm's business. "Interference" in the conduct of the business renders a limited partner liable, during the term of such interference, to the same risks and obligations that attach to the general partners.

Withdrawal of Capital.—If a limited partner withdraws any of the capital he has agreed to contribute he becomes liable for the debts and obligations of the firm up to the amount so withdrawn, as well as to the extent of the balance of his capital in the business. In cases where sums are withdrawn by the partners at regular intervals, in anticipation of profits, and the accounts at the close of the year show a loss, or insufficient profits to cover the withdrawals, it will be clear that the limited partner has committed a technical breach of the regulation of S. 4 (3), inasmuch as he has withdrawn a portion of the capital he agreed to contribute. In such event, steps should be taken to replace the capital inadvertently withdrawn.

With the consent of the general partners, any limited partner can assign his share in the partnership (S. 6, ss 5).

Conduct of Business.—The student should note that the limited partner has no power to bind the firm, and that the conduct of a limited partnership is in the hands of the general partners, who also have control of the winding-up proceedings in the event of dissolution, unless the Court orders otherwise

Dissolution.—In contrast with an ordinary partnership, a limited partnership is not necessarily dissolved by the death, lunacy, or bankruptcy of a limited partner; nor, in the absence of express agreement, can the other partners dissolve partnership if the limited partner suffers his share to be charged for his separate debt [S. 6, ss 5 (c)]. In the absence of specific agreement to the contrary, new partners may be introduced without the consent of the limited partners, and a partnership cannot be dissolved by means of a notice from a limited partner.

Section 7 of the Act provides that the Partnership Act, 1890, and the Rules of Equity and Common Law (except in so far as they may be inconsistent) are to apply to limited partnerships.

The examination candidate occasionally confuses the term "limited" partner with *sleeping* or *dormant* partner. It should hardly be necessary to point out that the terms are quite distinct. In cases where a full partner in a firm takes no active part in the management, but remains liable for all the obligations and entitled to all the rights of a full partner, he is referred to as a sleeping or dormant partner; but no distinction exists in law between such a partner and an active partner as regards liability to third parties.

Accounts.—In general matters the accounts of limited partnerships embrace similar material and entail similar treatment to that already dealt with in connection with ordinary partnerships. The most obvious outstanding difference is probably in reference to the treatment of losses, should they occur. The limited partner is liable only to the extent of the capital he contributes, and as a return for his contribution he is entitled to the agreed share of the profits. Assuming that profits have been made, the accounts would be treated as follows:—

Illustration.—Jones and Brown are partners. Jones, whose capital is £5,000, is a general partner, and is entitled to four-fifths of the profits Brown is a limited partner, and has contributed £3,000 as capital, and is entitled to one-fifth of the profits.

PROFIT AND LOSS ACCOUNT.

(LAST SECTION)

DR. CR.

	£	s	d		£	s	d.
To Jones, four-fifths of profit	2,000	0	0	By Balance brought down, being net profit for the year . .	2,500	0	0
,, Brown, one-fifth of profit	500	0	0				
	£2,500	0	0		£2,500	0	0

BALANCE SHEET.

Dr.		£	s.	d.	Cr.	£	s.	d.
Capital—					Sundry Assets	11,500	0	0
Jones	£5,000							
Brown . ..	3,000							
		8,000	0	0				
Drawing Accounts—								
Jones	£2,000							
Brown	500							
		2,500	0	0				
Sundry Creditors		1,000	0	0				
		£11,500	0	0		£11,500	0	0

Assuming that a series of losses have been made, the accounts might appear ultimately as follows :—

PROFIT AND LOSS ACCOUNT.

(Last Section.)

Dr.	£	s.	d.	Cr.	£	s.	d.
To Balance brought down, being net loss for the year ..	2,500	0	0	By Jones, four-fifths of loss . ..	2,000	0	0
				,, Brown, one-fifth of loss	500	0	0
	£2,500	0	0		£2,500	0	0

BALANCE SHEET.

Dr.		£	s.	d.	Cr.		£	s.	d.
Capital—					Sundry Assets		6,000	0	0
Jones, as per last Balance Sheet	£3,000				Brown—				
Less loss for the year ..	2,000				Drawing Account as per last Balance Sheet ..	£500			
		1,000	0	0	Loss for the year ..	500			
Brown		1,000	0	0			1,000	0	0
Sundry Creditors		5,000	0	0					
		£7,000	0	0			£7,000	0	0

Unless the firm recovers its prosperity, Brown's Drawing Account cannot come into credit again, because, as the Partnership Act, 1890, applies, he cannot draw his share of any profits which may be made until the debt has been wiped out If, on the other hand, the losses continue, Jones must make good the shrinkage in his Capital Account if the business is to endure. Brown, however, is under no liability to contribute further, and cannot be called upon to make good the debit balance of his Drawings Account. If circumstances continue adverse, Jones, whose liability is unlimited, may find himself responsible for making good all outside liabilities out of his own resources, as Brown's capital contribution has been lost and no further liability attaches to him.

Dissolution of the partnership would also involve the loss of the amount standing to the debit of Brown, as this can only be made good out of profits if and when they occur.

Loans.—A limited partner may make advances to the firm and can claim repayment of such loans irrespective of the fact that his current account may be in debit. The general partners cannot claim the right to set off such advances against any sums which may be in debit on his capital or current accounts.

Garner *v.* Murray.—The rule in Garner *v.* Murray, already explained in connection with ordinary partnerships, applies also in limited partnerships in the event of the failure of one or more of the partners, the remaining solvent partners being liable to meet the loss *pro rata* to their capital.

A limited partner can, of course, claim repayment of advances made by him, irrespective of the state of his current account. In this respect he enjoys an advantage as compared with a general partner, but he cannot withdraw profits until the debit balance of his current account has been made good. Losses incurred in the shape of debit balances due from limited partners are apportionable amongst the general partners according to their capital under the rule in *Garner* v. *Murray*.

Winding Up of Limited Partnerships.—The Act directs (S. 6, ss. 4) that limited partnerships may be wound up by the Court upon petition under the Companies Acts. This was repealed by the *Bankruptcy Act*, 1913, and the provisions of the *Bankruptcy Acts*, 1914 (which incorporates the Act of 1913) and 1926 are now applicable to the winding up of such partnerships in the same manner as ordinary partnerships; and on all the general partners being adjudged bankrupt, the assets of the limited partnership vests in the trustee in bankruptcy (*Bankruptcy Act*, 1914, S. 127).

EXAMINATION QUESTIONS.

1. Give the definition of partnership as set out in S. 1 of the Partnership Act, 1890, and state what relations are expressly declared in that section not to be partnerships. Two executors carried on their testator's business, being so authorised by the will, under the same name as that in which he had carried it on. A receiving order was made against them in the firm name. State, giving reasons, whether or not you think the executors were liable to be adjudicated bankrupt as partners. (*Incorporated Accountants.*)

2. What are the chief elements in a partnership? (*Royal Society Arts.*)

3. Summarise the rules laid down by the Partnership Act, 1890, for determining whether in a particular case a partnership does or does not exist. (*Incorporated Accountants.*)

4. State in what particular features an ordinary partnership differs from a private company, and the latter from a public company. (*Chartered Accountants.*)

5. A receives a share of the profits in the business of Brown & Co. What is the effect of this under the Partnership Act, 1890? What would be the effect if A received a share of the gross returns? Explain the reason for the difference. (*Central Association Accountants.*)

6. State whether a partnership exists in the following cases, giving your reasons: (*a*) Smith and Brown are joint owners of a landed estate, which they lease to tenants. (*b*) A lends B £500 for the purposes of B's business, in consideration of a share in the profits by way of interest. (*c*) White and Green were partners in a grocery business. On White's death, his widow agrees to leave his share of capital in the business in consideration of an annuity. (*Central Association Accountants.*)

7. Under what circumstances may a share of the profits of a business be paid to a person without constituting that person a partner? (*Chartered Accountants.*)

8. Briefly explain the extent to which a commercial firm may be bound by the acts of the members of the partnership Enumerate a few financial transactions in the carrying out of which a partner has the implied authority to bind his co-partners. (*Chartered Accountants*)

9. In respect of what matters, and how, may the ordinary authority and liability of a partner be modified or restricted as regards persons having dealings with the firm ?

A, B, and C are partners in trade. C obtains for his sole benefit a renewal of the lease of the premises in which the partnership business is carried on. What are the rights of A and B in respect of the renewed lease ?

Give reasons. (*Incorporated Accountants.*)

10. A. M. Khan & Co issue a notice that they will not be bound by the acts of Lewis, who is one of the partners. Consider the effect of this notice as between the firm and persons dealing with it. (*Central Association Accountants.*)

11. Does the advance of money to a person engaged in business, by way of loan, at interest varying with the profits, make the lender a partner, and what is the lender's position if the borrower becomes insolvent ? In what way has the Bankruptcy and Deeds of Arrangement Act, 1914, affected the law upon either of these points ? (*Incorporated Accountants.*)

12. In what respects does an ordinary partnership differ from (*a*) co-ownership ; (*b*) a limited company ? (*Incorporated Accountants.*)

13. How far does the English law regard a firm as having a separate existence apart from the partners who compose it ? Can a firm sue or be sued in its own name ? (*Central Association Accountants.*)

14. Discuss the following as a definition of partnership in English law : " A contract whereby two or more persons agree to combine their property, or property and labour, with the object of sharing among themselves the gain."

A, wishing to benefit B, entered into a verbal agreement with him, whereby A and B should carry on a certain business together. B to take all the profits and be liable for two-thirds of the loss. What would be the effect of such agreement ? (*Incorporated Accountants*)

15. A and B are partners Upon the death of A, his widow receives one-third of the profits by way of annuity. How far is this evidence that she is a partner in the business ? (*Central Association Accountants.*)

16. Summarise the acts by which a partner may bind his firm, and state to what extent, if at all, the partnership is liable for the torts of one of the partners. (*Incorporated Accountants.*)

17. " A partner, like a trustee, must not make a private gain by reason of his partnership in the firm." Illustrate this statement. On what general principle of law does it rest ? (*Incorporated Accountants.*)

18. How may a new partner be admitted into a firm ? (*Royal Society Arts.*)

19. What is the extent of the interest of a partner in the property of the firm ? (*Royal Society Arts.*)

20. What powers has a partner of (*a*) engaging and (*b*) dismissing employees ? (*Royal Society Arts.*)

21. What is the test, and the extent, of the general liability of partners for the debts of the firm, and how may it be limited in the case of (*a*) incoming partners and (*b*) retiring partners ? (*Royal Society Arts*)

22. A and B are partners A retires, and B takes C into partnership. B and C, continuing the old firm name, incur liabilities to D. Against whom has D a right of action, and how may such right be varied ? (*Incorporated Accountants.*)

23. What are the rights and duties of partners, as amongst themselves, with reference to signing cheques, rendering accounts, assigning a share of the partnership, carrying on another business, expelling a member of the partnership ? (*Incorporated Accountants.*)

24. A and B, who, together with C, are carrying on business as agents for the sale of motor-cars and accessories, have discovered that C made a secret profit when selling a car in the name of the firm. Advise A and B as to their rights. (*Incorporated Accountants.*)

25. Explain the difference, if any, between the rights of partners in a trading concern to borrow money for business purposes as compared with the borrowing powers of the directors of a limited liability company. (*Chartered Accountants.*)

26. It is an implied term of every partnership agreement that each partner must observe the utmost good faith and fairness towards his fellow partners. Explain and illustrate this statement, and set out the provisions of the Partnership Act, 1890, which appear to you to be framed with the object of enforcing such implied terms. (*Incorporated Accountants.*)

27. What is meant by the statement that a partner stands in a fiduciary relation to his co-partner ? (*Incorporated Accountants.*)

28. A and B are partners. How far is A liable to C in respect of contracts made with C by B, or of torts committed against C by B ? (*Royal Society Arts.*)

29. What is meant by the term "holding out" in relation to a partnership ? How far is a person who holds himself out as a partner liable (*a*) for the debts owing by the firm; (*b*) for money misappropriated by a member of the firm ? (*Incorporated Accountants.*)

30. What do you understand in partnership law by the doctrine of "holding out" ? Does the doctrine extend to bind (*a*) a retired partner; (*b*) a deceased partner's estate where the business is continued in the old name ? (*Incorporated Accountants.*)

31. What do you understand by the term "novation" as applied to partnerships ? Explain fully what is necessary to constitute "novation." (*Chartered Accountants.*)

32. Explain fully the liability of a partner for the debts and obligations of the firm contracted while he is a partner. (*Chartered Accountants.*)

33. What is a partnership at will ? How may such a partnership, and other partnerships, be determined ? (*Incorporated Accountants.*)

34. What is the goodwill of a partnership business ? Where the goodwill is sold, what are the consequent rights and duties of the seller and buyer ? (*Incorporated Accountants.*)

35. Define goodwill, and say how it is to be dealt with on a dissolution of a firm. To what extent is the assignor of the goodwill bound not to enter into competition with the successors to the old firm ? (*Incorporated Accountants.*)

36. What is meant by a "syndicate" and a "private company" respectively ? What elements have either of them in common with a partnership ? (*Incorporated Accountants.*)

37. What are the respective liabilities of (*a*) a partner, (*b*) a limited partner, (*c*) a dormant partner, (*d*) a retired partner for the debts incurred by the firm ? (*Incorporated Accountants.*)

38. What obligations are imposed on firms by the Registration of Business Names Act, 1916 ? Does the law generally impose any restrictions as regards the name under which a firm may carry on business ? (*Central Association Accountants.*)

39. What authority is charged with carrying out the provisions of the Registration of Business Names Act, 1916, and how is it to deal with (*a*) misleading business names; (*b*) the removal of names from the register, (*c*) an alteration to be made in the particulars as to any firm, or person, registered under the Act ? (*Incorporated Accountants.*)

40. Define a "firm" under the Registration of Business Names Act, 1916, and state in what manner registration thereof is to be effected, and what particulars are to be furnished for registration. (*Incorporated Accountants.*)

41. Under the provisions of the Partnership Acts, 1890 and 1907, what meanings are assigned to the following words and expressions if and when they are used in such Acts: "Firm," "firm name," "business," "partnership," "general partner," "limited partner"? (*Incorporated Accountants.*)

42. Black and White are equal partners in a firm of solicitors. Black has, without the knowledge of White, employed a trust fund of £5,000 (for which he is trustee) in the business. Of this sum £2,500 is lost by the firm in speculations. What are the liabilities (if any) to the beneficiaries of the trust fund: (*a*) Of the firm; (*b*) of the individual partners in the firm? (*Chartered Accountants.*)

43. The old partners of an ordinary partnership agree with an incoming partner that the incoming partner shall be liable for the debts of certain existing creditors whose names are set out in a schedule to the partnership agreement. Discuss the effect of this agreement. (*Incorporated Accountants.*)

44. What are the rights of the partners in a trading concern: (*a*) As to borrowing money for the purposes of the business; (*b*) as to interest upon capital? (*Chartered Accountants.*)

45. What power has a partner to assign his share in the partnership business? Can the assignee (*a*) share in the management of the business; (*b*) demand accounts of profits? (*Central Association Accountants.*)

46. What effect have the following upon the constitution of the firm: (*a*) Death of a partner; (*b*) bankruptcy of a partner; (*c*) assignment by a partner of his share? (*Central Association Accountants.*)

47. How far does a partner bind his co-partners by his acts in connection with the business?

A and B carry on business in partnership as jewellers. (*a*) A accepts a bill of exchange on behalf of the firm; (*b*) A pledges some diamonds in the name of the firm, (*c*) A gives a guarantee in the firm name. Is B bound by any or all of these acts? (*Central Association Accountants.*)

48. What ought to be done to protect the interests of all parties (including creditors): (*a*) When a new partner is admitted? (*b*) when the firm is dissolved?

Can anyone be held to be a partner in law without intending to be one? (*Chartered Institute Secretaries.*)

49. In what circumstances is a partnership dissolved (*a*) without having recourse to the Court; (*b*) by judicial proceedings? (*Incorporated Accountants.*)

50. What is the effect of dissolution of partnership upon an individual partner's right to share in the partnership assets? To what extent can the partnership be said to continue after dissolution? (*Central Association Accountants.*)

51. State the various grounds on which the Court will decree the dissolution of a partnership. What becomes of the goodwill of the firm on such dissolution? (*Incorporated Accountants.*)

52. In settling the accounts between the partners after a dissolution of the partnership, what course must be adopted in distributing the assets of the firm? (*Chartered Accountants.*)

53. Following upon a dissolution, how are the assets of a partnership to be applied, and what are included in such assets? (*Incorporated Accountants.*)

54. Brown has been in the habit of dealing with Smith, Williams, and Green, who carry on business as Green & Co. Green retired from the firm in April, and the firm ordered goods from Brown in May. Brown claims

to be entitled to treat Green as being still a partner. Green's retirement was duly advertised, but Brown's attention was not called to the advertisement. Advise Brown. *(Central Association Accountants.)*

55. You are to be appointed auditor under a partnership deed. The Draft Articles of Partnership are sent to you for your opinion and approval of clauses affecting the accounts. What matters of account would you expect to be mentioned in the draft Articles, and state shortly the objects of the clauses. *(Chartered Accountants.)*

56. Mention four clauses which you would expect to find in a deed of partnership, and state in each case the effect, if the deed is silent on that particular matter. *(Chartered Accountants.)*

57. A, B, and C were partners. C retired, and took no steps to free himself from partnership liabilities. His capital on retirement was £10,000 He received half in cash, and left the other half as a loan at a minimum rate of interest of 5 %, a higher rate on a sliding scale to be paid dependent on profits. The firm failed. The creditors whose claims existed when C retired amounted to £10,000, and there are claims subsequently contracted of £5,000. Do you consider C is liable for either or both classes of creditors ? Give reasons for your answer. *(Chartered Accountants.)*

58. Smith and Jones are proposing to enter into partnership as manufacturers. Smith is to provide £10,000 as capital and Jones £2,500. Jones is to manage the business and to devote the whole of his time to it. Smith is to devote to the business only so much of his time as he thinks fit.

You are requested to suggest such provisions, for inclusion in the partnership deed, with reference to the accounts and financial matters of the firm as, under the circumstances, you consider fair and right in the interests of both partners. *(Chartered Accountants.)*

59. In what cases has an outgoing partner the right to share profits made after a dissolution, and what are the rules for the distribution of assets on the final settlement of accounts ? *(Incorporated Accountants.)*

60. Specify some of the circumstances which would enable the Court to decree the dissolution of a partnership upon the ground that it is "just and equitable" To what remedies is the defrauded partner entitled when he has been led into a partnership by misrepresentations ? *(Incorporated Accountants.)*

61. How far can a partner's share and interest in a partnership be transferred (*a*) where he is a general partner ; (*b*) where he is a limited partner ? What is the transferee's position with regard to (*a*) the other partners ; (*b*) the creditors of the firm ? *(Incorporated Accountants.)*

62. What are the provisions of the Partnership Act, 1890, as to the firm's right (*a*) to expel a partner ; (*b*) to admit a new partner ? *(Central Association Accountants.)*

63. What do you understand by the term "goodwill" as applied to a partnership ?

A firm of grocers dissolved partnership, and sold the goodwill of their business to X, Y, and Z, who are now carrying on the same business at the same address. Subsequently A, B, and C again entered into partnership as grocers, set up a competing business next door to X, Y, and Z, and have solicited customers of their old firm. Advise X, Y, and Z. *(Incorporated Accountants.)*

64. In the relations of partners to one another, summarise the rules of the Partnership Act, 1890, as to the interests and duties of partners, subject to special agreement. Can one partner be expelled by the majority ? *(Incorporated Accountants.)*

65. Prepare draft headings for a deed of partnership between X, Y, and Z, who are about to commence practice as associated accountants. *(Central Association Accountants.)*

66. Chatenay and Richardson are in partnership, but no partnership deed has been entered into, and no agreement has been arrived at as to

interest on partnership capital and loans, or as to the proportion in which profits are to be shared. Chatenay contributed all the capital (£3,000) and also advanced a further £1,000 to the firm as a loan. Prior to charging any interest which may be due to Chatenay, the profits of the partnership for the year 19 . amounted to £840. Show the division of the profit as between the two partners. (*Royal Society Arts.*)

67. Under partnership arrangements partners were to be charged with interest on their drawings, which were made at various dates in the year and for various amounts. This involved somewhat lengthy interest calculations, which it was desired to avoid. You are asked to advise what method could be adopted to avoid these calculations. (*Chartered Accountants.*)

68. E H B. and H. V. B. are partners, and share profits as follows: E. H B. seven-tenths and H. V. B three-tenths. Interest on Capital Account only is allowed at 5 % per annum. H V. B. is entitled to a salary of £500 a year before the division of profits.

Prepare from the following particulars a statement showing the position of the Capital and of the Drawing Accounts of both partners as at June 30, 19.. : January 1, 19.., E. H. B., Capital Account, Cr £5,000; January 1, 19.., H. V. B., Capital Account, Cr. £2,000; January 1, 19.., E. H. B., Drawing Account, Cr. £542; January 1, 19.., H. V. B., Drawing Account Cr. £248.

On April 1st E. H. B. introduces a further £5,000 as capital.

The profit for the period, after interest charges and salary were adjusted, was £3,300.

E. H. B. drew £1,500 on February 1st, and a similar sum on March 31st. H. V. B. drew £1,300 on the latter date, and his salary each month. (*Incorporated Accountants.*)

69. Jones and Robinson have been carrying on business in partnership during the year ended December 31st. No partnership deed was, however, executed.

Capital was introduced into the business as follows Jones, £5,000; Robinson, £1,000 Jones, in addition, advanced £1,000 to the firm as a loan, but no agreement was come to between the partners as to the payment of interest upon this loan.

The profits for the year ended December 31st, amounted to £3,000, prior to provision for interest, if any, either upon Capital or Loan Accounts.

The partners cannot agree, either as to the proportion in which the profits are to be divided, or upon the question of interest. They refer the matter to you, and agree to abide by the accounts prepared by you.

How would you divide the profits for the year? (*Chartered Accountants.*)

70. A, B, and C are in partnership, sharing profits equally, but subject to receiving salaries of £1,000, £600, and £400 per annum respectively. For the year 19.., before charging salaries, the profits amounted to £10,000. A, having been elected a member of Parliament, and consequently unable to devote his whole time to the business, agrees to forgo his salary to the extent of £700

This concession was made by A after the books had been closed for the year. Show the Appropriation Account, as originally written up and as amended. (*Chartered Accountants.*)

71. On December 31, 19 ., three partners had the following amounts at the credit of their Capital Accounts: A, £5,000; B, £3,000, C, £2,000.

On January 1st previous, they had to the credit of their Drawing Accounts: A, £750; B, £500; C, £400.

Profits are divided in the same proportion as the capital, up to £2,000. Above that amount, A gets 25 %, B 35 %, and C 40 %

A drew during the year 19.., £500; B drew during the year 19.., £400; C drew during the year 19. , £300

The profits for 19.. amounted to £3,000, before charging interest on capital (to which all are entitled) at 4 %.

Give the Drawing Account of each partner on December 31, 19.., interest on drawings to be ignored. (*Chartered Accountants.*)

72. A, B, and C, in partnership, having capitals of £5,000, £2,000, and £1,000, agree that 5 % interest on capitals shall be charged to Profit and Loss Account; that each shall have a salary of £500; and that profits and losses shall be shared in proportion to capitals. The first year's trading results in a profit of £1,100, before charging interest on capital and salaries. Show how much each is entitled to draw (including amounts already drawn), so as to leave their Capital Accounts intact. (*Chartered Accountants.*)

73. On January 1st X and Y purchased the business and freehold premises of Smith & Co. for £25,000. Of this amount X found £10,000 and Y £5,000. The balance of £10,000 was left by the vendor upon mortgage of the freehold premises at 4 % per annum.

X was to devote only such time as he thought fit to the business, but Y was to devote the whole of his time, for which services he was to receive a salary of £300 per annum prior to the division of profits.

Each partner was to be credited with interest upon his capital at 5 % per annum, and debited with the same rate of interest upon all sums drawn from the business. Profits and losses were to be divided equally.

The profits of the business for the year ended December 31st, prior to any of the above adjustments, amounted to £3,825.

During the year X drew £520 in equal amounts on January 1st, April 1st, November 1st, and December 1st.

Apart from the management salary to which he was entitled, Y drew £420 in equal amounts on April 1st, November 1st, and December 1st.

Show how the Capital Accounts of the two partners would appear in the firm's Balance Sheet at December 31st. (*Chartered Accountants.*)

74. A, B, and C were partners, dividing profits in the proportions of one-half, one-third, and one-sixth respectively. Their capitals were: A, £10,000; B, £8,000; and C, £3,000. They arrange to take into the firm D, who is to pay in £6,500, of which £5,000 is to be his capital, and the remaining £1,500 is to be paid for goodwill, and is to be credited to A, B, and C in the proportions in which they share profits.

In the new partnership D is to have one-fifth of the net profits, and the remaining four-fifths is to be divided between A, B, and C in the proportions above named.

Show the Capital Accounts of the four partners, and state in what proportions they will share profits. (*Chartered Accountants.*)

75. Dickson and Bell, having capitals of £2,000 and £1,500 respectively, admit Peters into partnership on terms that he shall contribute £1,000 as capital, and pay them £1,400 for his share of the goodwill. Interest on capital to be 5 % per annum (charged to Profit and Loss Account), and profits to be shared in the proportion of 4, 3, and 2. Peters has only £1,000, which he pays in as capital; and, in an attempt to meet the position, the partners raise a "Goodwill Account" for £1,400, which is credited, £800 to Dickson's capital and £600 to Bell's You are called in at the end of the year, and find they have closed off the Profit and Loss Account as follows :—

	£	£		£
To Interest on Capital—			By Profit	2,500
Dickson	140			
Bell..	105			
Peters	50			
		295		
To Profits divided—				
Dickson . . .	980			
Bell..	735			
Peters	490			
		2,205		
		£2,500		£2,500

Correct the error made by the partners, and the effect thereof, by Journal entries, which should be fully explanatory. Show the true position of the partners' accounts. (*Chartered Accountants.*)

76. A, B, and C are partners at December 31, 19.., with capital of £4,000, £2,000, and £5,000 respectively B draws a management salary of £500 per annum, and it is provided by the partnership deed that after providing B's management salary and 5 % interest on capital, and before the division of profits, A shall be entitled to 5 % and C to 10 % of all profits in excess of £750 per annum. Assuming (*a*) that profits are divisible rateably with capital as at previous balancing; (*b*) that each partner draws £300 per annum in anticipation of profits, upon which no interest is to be charged; and (*c*) that the following are the profits for three years, you are required to prepare a Profit and Loss Distribution Account and a Capital Account with each partner 1st year, £1,750; 2nd year, £1,980; 3rd year, £2,300 (*Incorporated Accountants*)

77. Smith and Jones united in a venture to purchase at par and issue to the public £200,000 Debentures of a company, and agreed to share profits and losses equally They issued the debentures, which were fully subscribed, at 5 % premium. Smith, on his own account, subscribed for and was allotted £20,000, which he subsequently sold at 10 % premium; while Jones subscribed for and was allotted £3,000, which he sold at 9 % premium. The cost of the issue was £6,000. Create an account showing how much each gained by the transaction, disregarding interest and tax. (*Chartered Accountants*)

78. The articles of partnership of Williams & Watson include a clause that either partner may retire from the firm on the undermentioned terms by giving six months' notice: (1) That the retiring partner shall be repaid his capital; also (2) his share of profits to date of dissolution; (3) half the value of the goodwill of the business.

The profits (which are shared equally) are to be taken on the basis of the average profit of the firm for the three completed preceding years. The goodwill is to be valued at three times the average profit of the three completed preceding years. The profits were as follows · Year ended June 30, 1912, £2,500; year ended June 30, 1913, £2,100; year ended June 30, 1914, £3,050.

Williams gave notice to retire at December 31, 1914, his capital then being £4,500.

What amount is due to him for goodwill, capital, and profits ? (*Incorporated Accountants.*)

79. A, B, and C are in partnership sharing profits equally.

On December 31, 1911, A decided to retire, and their Balance Sheet on that date was as follows :—

Liabilities.	£	Assets.	£
Creditors	2,500	Freehold Premises	3,000
Capital—		Stock	8,000
A	5,000	Debtors	3,000
B	4,000	Cash	500
C	3,000		
	£14,500		£14,500

Under their Articles of Partnership A was to receive, for the year succeeding his retirement, one-half of the share of profits which he was receiving when he retired, he leaving his capital in the business as a loan.

On January 1, 1912, D was admitted a partner, and paid into the firm £3,000, of which £1,000 was for goodwill, to be divided equally between B and C, and placed to the credit of their capital accounts.

D was to receive one-fourth share of the net profits after charging them with A's proportion as stated above, while B and C were to divide the remainder in the same relative proportions as previously. The profits for 1912 amounted to £3,150, out of which interest at 5 % per annum was to be credited to A on his loan, and to the partners on their Capital Accounts at the same rate (both free of Income Tax).

Prepare statements showing the division of profits for 1912; the partners' Capital Accounts at December 31, 1912.

Also state the respective shares of B, C, and D in the profits for the year 1913. *(Chartered Accountants.)*

80. On January 1, 1909, A took B into partnership. A's books were kept by single entry, and the following statement as on the above date showed his position as follows :—

LIABILITIES.	£	ASSETS.	£
Sundry Creditors . . .	1,600	Sundry Debtors	2,500
A's Capital	2,600	Stock-in-Trade	1,000
		Fixtures and Fittings . .	500
		Cash at Bank and in hand	200
	£4,200		£4,200

It was agreed that B should not draw on account of profits more than £250 per annum until he had paid to A a premium of £400 out of his share of profits in excess of £250. A's capital was to be £2,600, as shown above, the new firm taking over the assets and discharging the liabilities. B was to bring in £500, which he did on January 1, 1909 The partners were to receive 5 % interest on their capitals, and the profits or losses were to be divided A two-thirds and B one-third. A's drawings were: 1909, £600; 1910, £540; 1911, £580 B drew £250 each year.

The position (apart from capital) on December 31, 1909, 1910, and 1911 was as follows :—

	1909.	1910.	1911.
	£	£	£
Assets	5,000	4,950	5,700
Liabilities	1,750	1,500	1,600

Amounts due from B to A in respect of premium were to be transferred from his capital to A's Capital Account.

Make out a statement showing the profit or loss for each year, and write up the partner's Capital Accounts.

Also show the position between A and B as regards the premium. *(Chartered Accountants.)*

81. Scarlett and Lake join in partnership on January 1st, without any formal deed between them. The capital introduced was as follows: Scarlett, £3,000; Lake, £2,000. On April 1st Lake advanced £500 to the firm as a loan without any agreement as to interest. The net profit for the half-year to June 30th, is £2,500. The partners cannot agree on the following points: Interest on capital, interest on loan, division of profits. Prepare accounts on the lines that you would adopt, giving reasons for your action. *(Central Association Accountants.)*

82. Draft from the following figures and particulars, taken from the books and accounts of P, R, and M, builders and contractors, a Balance Sheet and Profit and Loss Account as at December 31st. P and M are the continuing partners, R having become bankrupt and left the country, owing his late partners £635. P and M divide equally.

Their capital is £3,000. They own properties valued at £3,600, on which mortgages exist for £2,799. They owe to Trade Creditors £780, and P and M have drawn during the year £500 each Plant is valued at £390; Horses and Vans valued at £125; One Horse died during the year worth £35; the Debtors for Sales and Work amounted to £2,037; the Debtors for Rents, £146; Bank Balance, £847; Sales and Work done during the year, £11,415; Rent received during the year, £1,084; Purchases during the year, £3,472; Wages during the year, £5,591; General Expenses paid, £269; Ground Rent paid, £372; Interest on Mortgages paid, £189; Law Charges paid, £14; Surveyor's Fees paid, £116 *(Incorporated Accountants.)*

83. You are required to deal with the following points arising in partnership accounts In each case state clearly the reasons for the method you adopt and, where necessary, illustrate it by accounts.

X and Y had been in partnership for a considerable time, and by way of providing for bad debts and other risks of trading had each year written

off to a Reserve Fund 1 % on their turnover. At December 31, 1910, the account so built up amounted to £7,000. On January 1, 1911, Z is admitted into the business on the basis of receiving one-fourth share of the profits, the accounts being continued in the same way as hitherto. On January 1, 1914, it is agreed to discontinue the Reserve Fund, it being no longer needed. Under what circumstances can Z make good his claim to a quarter share of the whole account? (*Incorporated Accountants.*)

84. B joined A in partnership on January 1st, and is to have a half share of the profits. The partners' capitals are to be equal, and their total capital is to be a sufficient amount to convert the Bank Credit (overdraft) of £6,000 into a Debit Balance of £1,000. B pays A two years' purchase for his half share of the profits. The necessary transactions were carried through by the firm on January 1st. Show what entries would be made in the firm's books to record the transactions. (*Chartered Accountants.*)

85. A was in business as a manufacturer, and on January 1, 19.., he admitted his manager B as a salaried partner on the following conditions: (*a*) A Goodwill Account was to be opened in the books of the new firm, and debited with £5,000, and this amount was to be credited to the partners' Capital Accounts in the proportions of three-quarters to A and one-quarter to B. The share of goodwill credited to A was equal in amount to one-third of the balance standing to the credit of his Capital Account before the admission of B as a partner. (*b*) The partners' Capital Accounts were to be credited with interest at 5 % per annum (out of profits). (*c*) B was to receive (out of profits) a salary of £500 per annum, payable monthly, and he was also to be credited with 10 % of the profits shown by the Profit and Loss Account before charging his salary or any interest on capital. The remainder of the profits (if any) were to belong to A. (*d*) B was entitled to draw (with the consent of A) during the year sums on account of his percentage of profits. (*e*) No interest was to be charged on the drawings of either partner.

The entries required by clause (*a*) of the agreement were duly made on January 1, 19..; and during the year ended December 31, 19.., B drew his agreed salary, and also £50 on account of his percentage of profits. In addition to the amount standing to the credit of A's Capital Account, before the admission of B as a partner, and the balances represented by the above-mentioned transactions, the following balances appeared in the books of the firm as on December 31, 19 ..

You are required to prepare a Trading Account and Profit and Loss Account for the year ended December 31, 19.., and a Balance Sheet as on that date, after taking into consideration the following adjustments: (i) 10 % depreciation to be written off Plant and Machinery as on December 31st last, and 5 % off the additions made during the year; and £27 off Fixtures and Fittings. (ii) One quarter's Rent, amounting to £75, was owing on December 31, 19. . (iii) The Rates and Insurance unexpired, and paid in advance, were, on December 31, 19.., respectively £12 6s 2d. and £10. (iv) The Stock on hand as on December 31, 19.., was valued and agreed at £4,945 15s. 6d.

Balances, December 31, 19.. Cash at Bank, £490 12s. 4d.; Cash in hand, £14 7s. 3d.; Fixtures and Fittings, £327; Plant and Machinery (including additions during the year of £97), £4,524 12s. 6d; Purchases, £17,420 14s. 4d.; Sales, £31,921 10s 6d.; Carriage Inwards, £114 11s. 11d.; Carriage Outwards, £246 14s. 5d; A, Drawings Account, £1,275; Manufacturing Wages, £5,426 10s.; Office Salaries, £641 16s. 8d.; Sundry Debtors, £8,942 14s. 10d.; Sundry Creditors, £2,337 15s. 9d.; Discount Account (Credit Balance), £8 0s. 3d.; Postage and Stationery, £51 12s. 9d.; Office Expenses, £197 14s. 7d; Manufacturing Expenses, £439 2s. 1d; Stock (December 31st last), £5,064 4s. 8d.; Bad Debts, £271 16s.; Rent, £225; Bills Payable, £1,324 10s; Rates, Taxes, and Insurance, £127 2s. 10d.; Fuel and Power, £102 4s. 7d.; Lighting and Heating, £49 6s. 4d.; Purchases Returns, £987 14s. 1d.; Sales Returns, £1,326 12s. 6d. (*Royal Society Arts.*)

86. On December 31, 1914, Jones, Brown, and Smith are in partnership. No goodwill is included in their accounts, but by agreement the business is divided into 100 "shares," of which Jones is entitled to 50, Brown 30,

and Smith 20, the goodwill value of a share being £200. The capital is £4,000, contributed in the above proportions and represented by tangible assets. There are no liabilities.

They admit into partnership their managing clerk, Williams, as from January 1, 1915. Jones is to sell to Williams 15 shares and to Smith 5 shares, and Brown is to sell to Williams 5 shares, the capital to be contributed in the new proportions. Williams pays in cash £2,400, being one-half of the total sum he had to pay, and Smith pays for his new shares in full. Out of the amounts so paid in, Jones and Brown draw the proportions to which they were entitled.

Each partner has a separate fixed Capital Account and a Current Account, and the above transactions are all shown, as on January 1, 1915, in the books of the firm.

No interest is charged on capital or drawings, but 5 % per annum is charged to Williams and credited to the partners entitled thereto, on the amount unpaid by him. They draw during the year £60 in respect of each share held. The profit for 1915 was £9,000

Show the partners' Capital and Current Accounts for the year 1915; and the final position, when Jones, Brown, and Smith have drawn the balances to their credit on Current Account, which leaves the assets, other than the amount due from Williams, at £4,000. (*Chartered Accountants.*)

87. Two solicitors carried on practice for several years without any partnership agreement. Their books and accounts showed that they had equal capital in the business and divided profits equally

A Profit and Loss Account and Balance Sheet had been prepared and audited annually, but only such costs as had been made out and debited to clients had been taken into account, and no estimate had been made of costs in respect of matters which were incomplete or for which bills had not been delivered.

On the death of one of the partners the survivor continued to carry on the business, with the consent of the deceased partner's executor, and subject to his keeping proper accounts for ascertaining the share of the deceased partner.

What would you recommend as to the accounts to be kept, and how would you ascertain the deceased partner's share ? (*Chartered Accountants*)

88. On December 31, 19.., three partners had the following amounts at the credit of their Capital Accounts: A, £5,000; B, £3,000; C, £2,000.

On January 1, 19 ., they had to the credit of their Drawing Accounts: A, £750; B, £500; C, £400.

Profits are divided in the same proportion as the capital, up to £2,000. Above that amount A gets 25 %, B 35 %, and C 40 %. A drew during the year 19.., £500. B drew during the year 19.., £400. C drew during the year 19.., £300.

The profits for 19.. amounted to £3,000, before charging interest on capital (to which all are entitled) at 4 %.

Give the Drawing Account of each partner on December 31, 19.., interest on drawings to be ignored. (*Chartered Accountants.*)

89. J. Pipe, practising as a solicitor, takes F. Trigg into partnership on January 1, 1914. The capital is to be contributed as to £2,000 by Pipe and £1,000 by Trigg. Any deficiency, or surplus, on a partner's capital is to be transferred to his Loan Account, on which interest at 5 % per annum is to be calculated; but the Capital Accounts and drawings are not to bear interest. Trigg is to have one-fourth of the "earned" profits of 1914, and thereafter one-third of the "earned" profits; and to be credited on account of his share with the first £400 of profits of each year. Only "cash" profits are to be brought into account, however, and individual years are to be credited with 5 % as the agreed fee for collection of outstanding costs of previous years. You are called in to adjust the accounts for the two years ended December 31, 1915, and you find the following particulars from an analysis of the Cash Book: Pipe has drawn £800 and Trigg £400 each year. 1914: January 1st, Cash brought in, Pipe, £2,000; Trigg, £500. December 31st, Cash received, 1913 Costs Account, £380; Cash received, 1914 Costs Account, £975; Office Rent, Salaries and Expenses for year, £532 1915: December 31st, Cash received, 1913 Costs Account, £107;

Cash received, 1914 Costs Account, £1,016; Cash received, 1915 Costs Account, £1,245; Office Rent, Salaries, and Expenses for year, £679.

Draw the necessary accounts for each year; prepare Balance Sheet as on December 31, 1915. (*Chartered Accountants.*)

90. Herbert Smith and Ernest Jones are in partnership sharing profits equally and having each a capital of £5,000. It is provided in the Articles of Partnership that a partner may retire upon giving certain notice to the other, and that in the event of a partner retiring he shall be repaid his capital, proportionate share of profits to the date of dissolution, less his drawings, these profits to be taken on the basis of the average profits of the last three completed years, as stated in the Balance Sheet Book signed by both partners, and, in addition, he shall be paid his share of the goodwill, viz. half the goodwill of the business. The goodwill to be considered equal to three times the average profits of the last three completed years.

The amount payable to Herbert Smith for capital, profits, less drawings and goodwill, is to be satisfied by giving six bills of equal amounts carrying interest at the rate of 5 % per annum from October 1, 1910.

The yearly accounts are made up to December 31st, and Herbert Smith retires on September 30, 1910

The signed Balance Sheets show the following profits: Year to December 31, 1907, £10,000; year to December 31, 1908, £3,000; year to December 31, 1909, £2,300.

Show what amount is due to Herbert Smith for capital, goodwill, and profits, he having already drawn £500 on account of profits and the amount of each bill with the interest thereon added to it. (*Chartered Accountants.*)

91. A and B are partners in A and B's coal stores, and they share profits and losses equally. On December 31st, they had capital in the business: A, £3,100, and B, £2,600. The assets and liabilities of the firm, as on that date, stood at the following figures in the books: Office Furniture and Fittings, £320; Coal Trucks, £930; Trade Creditors, £848; Cash at Bank, £1,166; Carts, Plant, and Horses, £476, Bills Payable, £652; Sundry Debtors, £3,720; Cash in hand, £18; and Stock of Coal, etc., £570

They agreed to take into partnership C, a coal agent, as from January 1st next, on the following terms:—Profits and losses to be shared: A, two-fifths; B, two-fifths; and C, one-fifth. C was to bring into the partnership "Book Debts" amounting to £560 (less a reserve for Bad Debts of 5 %), and the goodwill of his connection, valued at £310; while his capital in the new firm was to be £1,000, the balance of which he was to pay in cash on signing the Articles of Partnership on January 1st. It was further agreed between A, B, and C that the following adjustments should be made in the figures as shown on A and B's Balance Sheet on December 31st: The Coal Trucks were to be taken at £1,000, and the Carts, Plant, and Horses as at £550, the result of an independent valuation; a Bad Debt reserve of 7½ % was to be deducted from outstanding debtors; the goodwill of the old firm (A and B) was to be taken at £455; and A was to be paid out from the Bank Balance such a sum as would make his capital equal to B's. The agreement was carried out.

You are required (*a*) to make the Journal entries necessary to complete the above adjustments, and (*b*) to draw up a Balance Sheet showing the position of the new firm as on January 1st. (*Royal Society Arts.*)

92. A, B, and C were in partnership with a capital of £3,000, contributed in the proportions of one-half, one-third, and one-sixth respectively; and sharing profits and losses in the same proportions. The partnership was dissolved on March 31st, the position being:—

Liabilities.	£	Assets.	£
A, Capital Account	2,000	Cash	400
B, Capital Account	1,000	Debtors	4,200
C, Capital Account	200	Stock	1,600
Creditors	3,000		
	£6,200		£6,200

It was arranged that the net realisations should be distributed, in their due order, at the end of each calendar month. The realisation and expenses were :—

	Debtors.	Stock.	Expenses.
	£	£	£
April	800	400	100
May	1,200	600	80
June	700	300	70
July	1,000	100	50
August	200	350	50

The Stock having been completely disposed of, it was agreed that C should take over the remaining debts at £60. Set out the accounts, showing how the cash realised was distributed month by month (*Chartered Accountants.*)

93. The following is the Balance Sheet on March 31st, of Mr. O. P. prepared for his own use and in the accustomed way :—

LIABILITIES.	£	ASSETS.	£
Creditors	3,000	Cash	500
O P, Capital	13,500	Debtors	4,000
		Stock	5,000
		Fixtures and Fittings ..	750
		Freehold Premises	6,000
		Investment	250
	£16,500		£16,500

He decides to admit a partner, and it is arranged that the partner shall join on the basis of the above Balance Sheet, subject to the following modifications : 5 % to come off the Debtors ; Stock to be taken at £4,500 ; Fixtures and Fittings to be taken at £500 ; Freehold Premises to be taken at £7,000 ; Cash and Investment not to be taken over by the partnership.

Make the necessary Journal entries, and show the Balance Sheet giving effect to the above modifications. (*Chartered Accountants.*)

94. A, B, and C were partners. Their partnership deed provided that they were to share profits thus : A, 26 % ; B, 34 % ; and C, 40 % ; and that if a partner died his capital should remain in the business, for a stated period, at a fixed rate of interest, but that deceased partner's share should be credited with an amount for goodwill based upon one and a half year's average profit for the five years prior to his death, but be subject to a deduction of 5 % from the book debts. C died, and the profits of the firm for the five years were agreed at £1600, £2,800, £2,400, £3,600, and £2,000 respectively, and the book debts at £12,000.

Prepare a statement showing the amount of goodwill to be credited to C's account, and give the Journal entries in the firm's books necessary to carry out the transaction. (*Chartered Accountants.*)

95. The goodwill of a business is valued at £6,000, and belongs to A. He takes B into partnership, and it is agreed that the value of the goodwill shall be credited to A in the books of the new firm, but that it shall gradually become the property of the partnership, the term of which is to be twelve years. Profits are to be shared equally.

Show by what entries in the books this is to be effected. (*Incorporated Accountants.*)

96. A and B are in partnership. The Balance Sheet of December 31st, shows A's capital at £5,250, and B's at £2,100. Goodwill does not appear on the Balance Sheet. Profit is divided as to two-thirds to A and one-third to B. As a matter outside of the partnership, B owes A £600. This does not appear in the firm's books. Disagreements arising, the partners agree to dissolve as from December 31st, on the basis of the Balance Sheet above referred to. A offers B £3,000 to go out, this payment to recompense B for his interest in the business, including goodwill, and also

to settle the private debt of B to A. B, however, would rather pay A out on the like terms, and offers A a sum to settle A's interest in the business and his (B's) debt to A.

Prepare a statement, to be rendered by B to A, showing the amount B offers and how it is made up, assuming that B values the goodwill at the amount which is implied as its value in A's offer to B. (*Chartered Accountants.*)

97. X, with an old-established business, proposes to admit Y into partnership, and by the partnership deed it is provided that the goodwill of the business, valued at £6,000, shall at the outset belong and be credited to X, but that during the twelve years of the partnership it shall gradually become partnership property.

By what entries in the books would you effect this, and how would Goodwill Account stand at the end of the fourth year? (*Incorporated Accountants.*)

98. The Balance Sheet of Maurice Bernardin, as on December 31st, was as follows :—

BALANCE SHEET, DECEMBER 31ST.

LIABILITIES.	£	ASSETS.	£
To Capital	5,000	By Plant and Machinery ..	3,000
„ Sundry Creditors ..	2,400	„ Sundry Debtors	1,680
		„ Stock-in-hand	1,720
		„ Cash at Bank	1,000
	£7,400		£7,400

On January 1st, next, Bernardin admitted Paul Lede into partnership. Lede paid £1,000 into the business as his capital, and, as he had no further funds, it was agreed that a goodwill account for £1,500 was to be opened and credited to Bernardin. Show the Balance Sheet of the new firm upon the completion of these transactions. (*Chartered Institute Secretaries.*)

99. A and B are equal partners, and they agree to take C into partnership on introduction of the sum of £3,000 as capital.

The Balance Sheet of the old firm was as follows :—

LIABILITIES.	£	ASSETS.	£
Creditors	3,000	Debtors	5,000
Capital—		Fixtures and Fittings ..	500
A	3,750	Cash in hand and Bank .	500
B	3,750	Stock	4,500
	£10,500		£10,500

It is agreed to amend the above Balance Sheet by making a reserve of £500 for Bad Debts, to depreciate the Fixtures by £100, and to write 10 % off the Stock.

It is also agreed to create a goodwill of £1,500, which is to be so apportioned as to show all the three partners with equal capital.

Prepare an amended Balance Sheet embodying the above proposals. (*Incorporated Accountants.*)

100. Blank found himself in the position disclosed in the following statement on December 31st :—

LIABILITIES.	£	ASSETS.	£
Sundry Creditors . ..	3,630	Sundry Debtors	2,082
Preferential Creditors ..	185	Bills Receivable	120
Bank Overdraft ..	250	Stock	942
Abel Chatenay (loan) ..	800	Machinery	1,000
		Cash in hand	15
		Deficiency	706
	£4,865		£4,865

The following arrangements were entered into with the parties concerned. The preferential creditors and the bankers were to be paid in full. The trade creditors were to accept 15s. in the £ in full settlement. Abel Chatenay was to join Blank as a partner, introducing £2,000 into the business, and the loan of £800 was to be transferred to his capital account. The Sundry Debtors were valued at £1,740. The Stock was written down to £700, and the Machinery to £800. Any profit or loss arising out of the above settlement was to be carried to Blank's Capital Account.

Prepare a statement showing the position of the new firm upon the completion of the above settlement. (*London Chamber Commerce.*)

101. The following figures are taken from the books of Messrs. A, B, C, and D, general outfitters, for the years ended December 31, 1911, 1912, and 1913.

	1911.	1912.	1913.
	£	£	£
Interest on Capital	785	849	879
Interest on Loan	428	365	316
Rent	665	665	665
Salaries of Principals	1,000	1,000	1,000
Net Profit	2,052	1,181	1,440
	£4,930	£4,060	£4,300

The Balance Sheet, dated December 31, 1913, showed that the capitals of the partners at that date were: A, £5,800; B, £6,800, C, £2,500; D, £3,400 respectively, and that the loan from E stood at £6,500, all bearing interest at 5 %. The four principals share salary and net profits equally. At the same date the business premises of the firm came into the market, and the owner was willing to sell for £14,000, and to take the whole in debentures at $4\frac{1}{2}$ % if the firm were turned into a private limited company. The firm instruct you to make suggestions: (*a*) As to the capital of the company and its division into 5 % Preference and Ordinary shares; and (2) as to its allocation between the partners. They instruct you to create a Goodwill of £4,000, to be divided equally between A, B, C, and D, and to provide for the issue of £14,000 debentures at $4\frac{1}{2}$ %. The loan creditor, E, is willing to take over his loan in 5 % Preference shares. A desires to bring in his son, F, and to transfer to him £1,000 of his capital. The original partners are to receive a salary as managing directors of £250 each, and F is to receive £150 as salary. Prepare a scheme for the appropriation of preference or ordinary shares between A, B, C, D, E, and F in such a way that, subject to the extra charge of £150 paid to the new partner F, the principle of equal division of net profits between the original partners is maintained. (*Incorporated Accountants.*)

102. Two firms, Johnsons and Wilsons, who have been closely associated (Johnsons having taken a large proportion of Wilsons' output), agree to amalgamate, and to convert the united businesses into a limited company under the name of Johnson & Wilson, Ltd. The assets of both firms, exclusive of goodwill, are to be transferred at book values, and amount to £76,406, namely, Johnsons, £57,258, and Wilsons, £19,148.

The goodwill is to be taken at a sum equal to three years' purchase of the combined profits of the two firms, calculated on the average profit of the preceding five years of each firm.

The amount of goodwill so ascertained is to be taken three-fourths by Johnsons and one-fourth by Wilsons.

The totals of the five years' profits were: Johnsons, £24,460; Wilsons, £6,840

The purchase money is payable as follows: Fully paid ordinary shares of £1 each for the amount of goodwill. Fully paid ordinary and fully paid preference shares of £1 each in equal proportions for the other assets, less £10,000 in cash to Johnsons and £2,500 in cash to Wilsons.

State the amounts to be received by Johnsons and Wilsons respectively in ordinary shares, preference shares, and cash. (*Chartered Accountants.*)

103. A and B were partners, and arranged each to bring a son into the firm on January 1st. The capital on that date was £16,000.

	£
A's Capital	9,000
B's Capital	7,000
	£16,000

A agreed to credit his son C with £2,000, part of his (A's) capital. B agreed to introduce £2,000 in cash as his son D's capital. The salaries were fixed at £800 each to A and B, and £200 each to C and D. The salaries and interest at 5 % per annum on the respective amounts of capital were to be charged before arriving at net divisible profits, which were to be divided as follows: Three-eighths each to A and B, one-eighth each to C and D.

The profit on December 31st, before charging salaries and interest, was £3,300.

A had drawn cash on account of Salary and Interest, £650; B, £480; C, £200; D, £180. No interest was to be charged on withdrawals.

Make the closing entries as on December 31st, of the Profit and Loss Account, and show the partners' Capital and Current Accounts. (*Chartered Accountants.*)

104. A and O, trading in partnership, and sharing profits and losses in the proportions of two-thirds and one-third respectively, sold their business to J. S. & Co. Their Balance Sheet showed as follows:—

Liabilities.	£	Assets.	£
Creditors	3,750	Plant	2,000
A's Capital	6,000	Fixtures and Furniture ..	650
O's Capital	4,000	Stock	7,500
		Book Debts . .	2,500
		Bills Receivable	500
		Cash at Bank	600
	£13,750		£13,750

The purchasers agreed to give £2,000 for goodwill, but would only take over the Stock at £7,000, and the Plant at £1,700. Make up the Capital Accounts of A and O, carrying out the terms of sale. (*Chartered Accountants.*)

105. Jones and Smith decided to convert their business into a limited company as from January 1, 19... Their Balance Sheet on that date was as follows:—

Liabilities.	£	Assets.	£
Sundry Creditors .. .	15,000	Land and Buildings.. ..	10,000
Loan on Mortgage of Land and Buildings (*contra*)	7,500	Machinery and Plant .	8,000
Capital—		Models and Patterns	1,500
Jones	17,000	Stock-in-Trade	12,000
Smith	10,000	Sundry Debtors . ..	17,500
		Cash in hand and at Bank	500
	£49,500		£49,500

A company called Jones, Smith & Co., Ltd., was formed for the purpose of taking over the business. Its capital was £100,000, divided into 50,000 6 % Cumulative Preference Shares of £1 each and 50,000 Ordinary Shares of £1 each. The company was a private company, registered on December 31, 1912, the signatories to the Memorandum of Association being Jones and Smith for one ordinary share each, for which they paid on January 7, 1913.

The company purchased the assets (exclusive of cash in hand and at Bank) for £32,500, and agreed to take over the mortgage and pay the sundry creditors. The purchase price was to be discharged by the allotment to the vendors of 12,100 6 % Preference Shares and 16,500 Ordinary Shares, and the payment of the balance in cash. (*Chartered Accountants.*)

106. X, Y, and Z carry on business in partnership. On December 31, 19.., their Balance Sheet was as follows:—

LIABILITIES.	£	ASSETS.	£
Sundry Creditors	5,500	Sundry Debtors	7,600
Loan on Mortgage of Freehold Property	1,400	Stock-in-Trade .. .	5,000
X, Capital	5,000	Loose Tools, etc.	1,500
Y, Capital	5,000	Plant and Machinery ..	2,300
Z, Capital	2,500	Freehold Premises	2,000
		Cash in hand and at Bank	1,000
	£19,400		£19,400

X wishes to retire from the partnership, and Y and Z agree to purchase the business on the following terms: 10 % to be allowed off the Sundry Debtors; 15 % off the Stock-in-Trade; 10 % off Loose Tools, the Plant and Machinery to be valued at £2,000, and the Freehold Premises at £2,500; 2 % to be allowed off the Sundry Creditors for discount; and Y and Z to take over the mortgage.

Profits and losses are shared equally by the three partners.

Make the Journal entries required, and post to Ledger accounts, opening such as may be necessary for that purpose.

Make out a Balance Sheet after the adjustments are completed. (*Chartered Accountants.*)

107. F and G agree to admit H as a partner as from January 1, 19.. upon the following terms: (*a*) H to bring in £5,000, of which £1,500 is to be regarded as a premium and credited equally to F and G (*b*) Profits to be divided as follows: F and G, two-fifths each; H, one-fifth.

The Balance Sheet of F and G at December 31st last, was as under:—

LIABILITIES.		£	s	d.	ASSETS	£	£	s.	d.
Creditors		5,790	10	0	Plant, etc.	15,300			
Capital—	£				*Less* Depreciation	3,300			
F	8,500						12,000	0	0
G	8,500				Debtors	4,600			
		17,000	0	0	*Less* Reserve ..	940			
							3,660	0	0
					Stock		5,720	6	8
					Bank		1,410	3	4
		£22,790	10	0			£22,790	10	0

Draft the Balance Sheet of the new firm on January 1st. (*Incorporated Accountants.*)

108. Richard Black and William White enter into partnership, upon equal terms, for the purpose of purchasing and continuing the old-established business of the late Robert Blank. The business was taken over from Blank's executors as on January 1st, as a going concern, upon the basis of the last certified Balance Sheet, which was as follows:—

R. BLANK.

BALANCE SHEET, DECEMBER 31ST.

LIABILITIES.	£	ASSETS.	£
To Capital	26,593	By Freehold Premises ..	14,200
„ Sundry Creditors ..	3,482	„ Plant Account	8,100
„ Reserve for Bad Debts	385	„ Sundry Debtors ..	3,420
		„ Stock on hand	4,140
		„ Office Furniture ..	600
	£30,460		£30,460

The purchase price was agreed at £28,000, which amount was found, in equal shares, by Black and White, and duly paid over to Blank's executors.

In addition each partner paid £1,000 into the new firm's banking account to provide working capital, and it was agreed, before opening the new books, to reduce the valuation of the Plant (as shown above) by £500, the Stock by £450, and the Office Furniture by £200.

Make the opening entries necessary to record the above transactions in the books of the new firm, and draw up a Balance Sheet showing the position of Messrs. Black and White at the commencement of the new partnership. (*Chartered Accountants.*)

109. Jones and Smith are in partnership as motor manufacturers. The following is their Balance Sheet on December 31, 19.. :—

LIABILITIES.	£	£	ASSETS.	£
Creditors		2,621	Cash at Bank	825
Jones's Capital ..	7,951		Debtors	5,286
Smith's Capital ..	7,951		Stock	4,409
		15,902	Plant	5,003
			Land and Buildings	3,000
		£18,523		£18,523

They decide to sell their business as from the above date to the Hamilton Motor Manufacturing Company, Ltd. The Company acquires the Stock, Plant, Land, Buildings, and Goodwill, for which the vendors receive £15,000 in fully paid £1 Ordinary Shares.

The Company agrees to pay the creditors and collect the book debts on behalf of the vendors, the net proceeds to be applied in taking up further shares.

In October next you ascertain that the creditors have all been paid, and that the amount so paid is £2,763. Also that the book debts have all been collected or accounted for, and have realised £5,213. You certify accordingly, and on October 31st the vendors apply for and are allotted at par, and in equal proportions, ordinary shares for the balance which the Company holds to their credit.

(1) Make the Journal entries in the Company's books relating to the assets purchased from the vendors.

(2) Set forth briefly the procedure you recommend for the purpose of dealing, in the Company's books, with the vendors' liabilities and book debts and the subsequent settlement. Illustrate this, if necessary, by Journal entries, and draw out a *pro-forma* Vendors' Account in the Company's books showing the settlement. (*Chartered Accountants.*)

110. The partners of a private firm decide to form their business into a limited company.

The assets stand in the firm's books as follows :—

	£
Land and Buildings at Cost	7,000
Plant and Machinery, *less* Depreciation	5,000
Stock-in-Trade, at cost price	3,000
	£15,000

These assets are sold to the company for £12,000, and the following amounts are opened in the books of the new company in respect thereof :—

	£
Land and Buildings	6,000
Plant and Machinery	4,000
Stock	2,000
	£12,000

At the end of the first year's trading one-half of the old stock is still unsold, and is included in Stock on the basis of its original cost price, the new stock on hand being valued on a similar basis.

The profit for the year, after providing for depreciation on Plant and Machinery, is £1,500, which the directors recommend to be distributed as dividend.

From the information before you, what observations, if any, would you as auditor make on these accounts? (*Chartered Accountants.*)

111. A and B carry on business in partnership as timber merchants. They divide profits: A, two-thirds; B, one-third; and on December 31st, their Balance Sheet was as follows:—

Liabilities.	£	Assets.	£
Sundry Creditors and Bills Payable	3,000	Leasehold Land and Buildings	2,000
Capital—		Plant and Machinery .	1,800
A	4,000	Sundry Debtors and Bills Receivable	2,500
B	2,000	Stock	2,100
		Cash at Bank and in hand	600
	£9,000		£9,000

They agree to take C into partnership on January 1st, next. The profits are to be divided: A, two-fifths; B, two-fifths; C, one-fifth. A is to be a limited partner, and B and C general partners. C is to pay in £1,000 as capital.

The assets of the business are to be taken over by the new firm on the following terms: Land and Buildings at £2,250; Plant and Machinery subject to 10 % deduction for depreciation; Sundry Debtors and Bills Receivable subject to an allowance of £500 to cover bad debts, discounts, and cost of collection, Stock at £1,800.

The new firm also takes over the liabilities of the old firm as shown in the above Balance Sheet.

A agrees with B that any loss on the taking over of the assets by the new firm shall be borne by him (A).

A's capital as limited partner in the new firm is to be £3,000. B's capital is to be £2,000.

Open the books of the new firm, and make out a Balance Sheet as on January 1st, presuming C's capital to have been paid in. (*Chartered Accountants.*)

112. J. Smith's Balance Sheet showed the following assets and liabilities:— Land and Buildings, £150,000; Stock, £100,000; Work in Progress, £43,000; Sundry Debtors, £55,000; Patent Rights, £8,000; Cash at Bank, £5,000; Sundry Creditors, £50,000; Sundry Bills Payable, £6,000.

A limited company (J. Smith, Sons & Co., Ltd.) was formed to purchase the business for the sum of £350,000, payable as to £100,000 in Ordinary Shares, £100,000 in Preference Shares, £100,000 in $4\frac{1}{2}$ % Debentures, and the balance in cash, the company agreeing to take over the assets of J. Smith (with the exception of the Bank balance) and the liabilities to creditors.

The registered capital of the company was £400,000, divided into 250,000 Ordinary and 150,000 Preference Shares of £1 each.

50,000 Ordinary Shares and the balance of the Preference Shares were issued for subscription by the public, payable 5s. per share on application, 5s. per share on allotment, and 10s. per share one month after allotment.

The issued capital was fully subscribed, and the shares (including the vendor's shares) and the debentures were allotted by the company on March 1st.

Give the Journal entries for recording the above transactions in the books of the company, showing particularly what amount you consider should be charged to capital expenditure and stating your reasons for your decision. (*Chartered Accountants.*)

113. A, B, and C were in partnership, sharing profits in the proportions of four-ninths, three-ninths, and two-ninths. It was agreed that, in the event of the retirement of a partner, the remaining partners should take over, in equal proportions, his share of the property and goodwill, the consideration to be an annuity (payable out of the business profits) of £100 in respect of each of his one-ninth share in the profits. A retired from the firm on December 31, 1915, his capital, including share of goodwill, being then £3,600. How would you suggest that the transaction should be dealt with

in the books of the firm, and how would you deal with the annuity payable to A for the year 1916? (*Chartered Accountants.*)

114. W. Lone and T. Stanley are trading as partners in the firm of Lone, Stanley & Co, profits being shared as follows: W. Lone, two-thirds, and T. Stanley, one-third. The following is the Balance Sheet of Lone, Stanley & Co. as at December 31st:—

Liabilities.	£	Assets.	£
W. Lone, Capital Account	2,000	Cash	200
T. Stanley, Capital Account	1,800	Sundry Assets	27,600
Sundry Creditors	24,000		
	£27,800		£27,800

On January 1st, next, they admit M. Maxwell as a partner on the following terms: (*a*) Profits are to be divided as to three-sixths to W Lone, two-sixths to T. Stanley, and one-sixth to M. Maxwell. (*b*) M. Maxwell to bring in £1,000 as his capital. (*c*) A Goodwill Account is to be raised for £1,800, this sum to be credited to the old partners. (*d*) W. Lone is at liberty to withdraw £400 of his capital on January 1, 1909. (*e*) M. Maxwell to have a salary of £400 per annum out of profits. (*f*) Interest to be allowed on partners' capital accounts at the rate of 5 % per annum No interest on ordinary drawings to be taken into account. Each partner is at liberty to draw £40 a month in anticipation of profits (in the case of M. Maxwell the £40 is in anticipation of profits and salary).

Assume that all transactions mentioned above have been carried out. The profits for the year ended December 31st, before making any allowance for M. Maxwell's salary or for interest on partners' capital, amounted to £2,510.

Show the partners' Capital Accounts at December 31st. (*Lancashire and Cheshire Institutes.*)

115. T. Landry and R. Lambert, who were equal partners in a manufacturing business, agreed to dissolve partnership and to realise their business as on June 30th. On that date their Balance Sheet was as follows:—

Messrs. T. Landry and R. Lambert.

BALANCE SHEET, JUNE 30th.

Liabilities.	£	Assets.	£
T. Landry, Capital Account	3,000	Sundry Assets	5,150
R. Lambert, Capital Account	700	Cash	850
Sundry Creditors	2,300		
	£6,000		£6,000

The expenses of the realisation, which were paid in cash, amounted to £270, and the Sundry Assets realised £3,920 in cash.

You are required to show fully the result of the realisation, which was concluded on August 16th. Under the partnership articles, in the event of there being any deficiency on the capital account of either partner, the amount of such deficiency is to be at once made good in cash. (*London Chamber Commerce.*)

116. A and B, sharing profits and losses three-fifths and two-fifths, dissolved partnership on June 30, 19.., when their capital accounts showed credit balances of £3,000 and £1,300 respectively Their Creditors amounted to £800, Debtors £1,200, Cash at Bank £300, Stock £2,600, and they had certain other assets, valued at £1,000, which realised £800. The liquidation expenses amounted to £50. The Stock was sold for £2,300, and the Debtors

produced 90 % of their book value. Close the firm's books, and show the Journal entries. (*Chartered Accountants.*)

117. Atwell, Brown and Crooks are in partnership, sharing profits and losses equally. Their Balance Sheet at May 31st was as follows :—

Liabilities.	£	Assets.	£
Sundry Creditors	750	Freehold Property	6,000
Advance from Bank ..	300	Plant	2,000
Capital Accounts—		Stock	4,500
Atwell	5,500	Sundry Debtors	1,700
Brown	4,500	Cash in hand	850
Crooks	4,000		
	£15,050		£15,050

They agree to dissolve partnership as at that date, Atwell to take the Freehold Property at £5,000, Brown to purchase the Stock for £3,820, and Crooks to take over the Sundry Debtors at a reduction of 10 %. The Plant realised £3,000, and the costs of winding up were £200. Prepare final accounts. (*Central Association Accountants.*)

118. Smith, Brown, and Robinson are in partnership as solicitors in London, Liverpool, and Newcastle, dividing profits: Smith, one-half; Brown and Robinson, each one-fourth.

On December 31st, the agreed Trial Balance is as follows :—

	£	£
Furniture and Fittings—		
London	400	
Liverpool	200	
Newcastle	200	
Debtors (including costs accruing)—		
London	1,200	
Liverpool	800	
Newcastle	600	
Creditors		500
Cash at Bankers	690	
Drawings—		
Smith	1,270	
Brown	550	
Robinson	600	
Capital, December 31st, previous year—		
Smith		1,500
Brown		800
Robinson		700
Profit for year		3,010
	£6,510	£6,510

On this date they decided to dissolve the partnership under the following arrangements: Smith to take over the London assets and all liabilities, and to pay Brown and Robinson each £300. Brown to take over the Liverpool assets. Robinson to take over the Newcastle assets. Furniture and Fittings to be reduced by 20 %. Debtors to be reduced by 10 %. Interest on Capital (but not on Drawings) to be charged at 5 % per annum. Cash at Bankers to be applied in paying the final balances between them.

Prepare statements showing: (*a*) Distribution of profit; (*b*) partners' accounts. (*Chartered Accountants.*)

119. A and B carried on business as pottery manufacturers at Hanley, under the style of A, B & Co. They dissolved partnership on March 31st, A retiring from the business, and B continuing to carry it on under the same style, and purchasing A's share therein at the amount shown as his capital at March 31st, after a proper revaluation of the assets.

The firm's Balance Sheet at the previous December 31st was as follows :—

Liabilities.	£	Assets.	£
Sundry Creditors	5,000	Land and Buildings	10,000
Bills Payable	1,500	Plant and Machinery ..	6,000
Mortgage on Land and Buildings at 4 %	7,500	Loose Plant and Tools ..	3,000
A, Capital	14,500	Stock-in-Trade	9,000
B, Capital	9,500	Sundry Debtors after providing for Bad Debts and Discounts	7,500
		Bills Receivable	1,000
		Cash in hand and at Bank	1,500
	£38,000		£38,000

Profits and losses, both of revenue and capital, were divided in the proportions of A two-thirds and B one-third.

The revaluations at March 31st resulted as follows : Land and Buildings, £9,100 ; Plant and Machinery, £5,600 ; Loose Plant and Tools, £3,500 ; Stock-in-Trade, £8,000.

The other assets at that date were agreed as follows : Sundry Debtors (after providing for bad debts and discounts), £8,500 ; Bills Receivable, £600 ; Cash in hand and at Bank, £2,000.

The liabilities were : Loan on Mortgage at 4 %, £7,500 (interest paid to December 31st) ; Bills Payable, £1,000 ; Sundry Creditors, £3,500.

Make out the necessary adjustment accounts and Balance Sheet at March 31st. (*Chartered Accountants.*)

120. The following was the Balance Sheet of a firm upon dissolution of partnership, A retiring, B continuing the business. The partners' shares as to capital and profits were : A, three-fourths ; B, one-fourth.

	£		£
Capital—		Freehold	12,000
A	9,000	Debtors	3,000
B	3,000	Cash	1,000
Loan from A	2,000	Stock	1,000
Creditors	1,800		
Reserve	1,200		
	£17,000		£17,000

A agreed to buy the Freehold for £10,000. The Stock was taken over by B at 10 % discount The Debtors realised 86 % of their value The costs of the liquidation, exclusive of the above deficiencies, were £470. What did each partner receive ?

Show Cash Account, Liquidation Account, and the partners' accounts. (*Chartered Accountants.*)

121. A, B, and C carried on business in partnership, and on December 31st their Balance Sheet was as follows :—

Liabilities.	£	Assets.	£
Sundry Creditors	4,500	Land and Buildings	4,000
A, Loan	6,000	Plant and Machinery ..	8,000
Capital Accounts—		Loose Plant and Tools ..	1,500
A	12,000	Stock-in-Trade	10,000
B	10,000	Sundry Debtors .. .	14,000
C	7,500	Cash at Bank and in hand	2,500
	£40,000		£40,000

They decide to dissolve the partnership as at December 31st. A retires, and B and C carry on the business, and agree to purchase A's share in

the capital of the firm in the proportions in which they share profits and losses. Profits and losses are shared: A, two-fifths; B, two-fifths; C, one-fifth. A agrees to allow his loan to remain in the business.

For the purposes of the dissolution the Goodwill is valued at £5,000, and the assets are to be taken as follows: Land and Buildings, £4,500; Plant and Machinery as in the Balance Sheet, subject to 10 % depreciation; Loose Plant and Tools as in the Balance Sheet, Stock-in-Trade at £9,000; Sundry Debtors as in the Balance Sheet, subject to £1,100 provision for bad debts and an allowance of 5 % for discounts and costs of collection.

The liability to Sundry Creditors is taken over by B and C, subject to an allowance of £200 for discounts.

B and C continue to share profits and losses in the same proportions as heretofore.

Draw up the Realisation Account and the Balance Sheet of B and C as on January 1st next. (*Chartered Accountants.*)

122. X and Y and Z are in partnership sharing profits and losses equally. Their Balance Sheet at December 31st was as follows :—

Liabilities.		£	Assets.	£
Sundry Creditors		1,300	Properties	3,100
Capital Accounts—			Cash	1,400
X	£2,000			
Y	1,000			
Z	200			
		3,200		
		£4,500		£4,500

Z becomes bankrupt, and the partnership was dissolved on December 31st. X buys the partnership properties for £2,250. The costs of realisation are £110. Show the final accounts (*Central Association Accountants.*)

123. S, T, and W were in partnership, having capitals respectively of £4,000, £3,000, and £3,000, and sharing profits in those proportions. In addition, S had advanced £5,000 and T £1,000 to the firm The creditors of the firm (other than S and T) amounted to £10,000. All partners having ample private means, show the amount of cash they would each receive if the assets realised alternatively (*a*) £15,000, (*b*) £20,000, (*c*) £30,000. Ignore interest. (*Chartered Accountants.*)

124. Brown, Robinson, and Jones are partners, and share profits and losses · Brown, one-half; Robinson, three-eighths, and Jones, one-eighth. On December 31st the firm was dissolved. The Balance Sheet on that date was as follows :—

BALANCE SHEET.

Liabilities.	£	Assets.	£
Brown, Capital Account ..	20,281	Land and Buildings	12,800
Robinson, Capital Account	14,117	Patents	5,000
Sundry Creditors	7,264	Plant and Machinery ..	9,850
Bank Overdraft	562	Sundry Debtors	10,212
		Stock	3,862
		Jones's Capital Account ..	500
	£42,224		£42,224

The assets were realised as follows: Land and Buildings, £14,100; Patents, £900; Plant and Machinery, £4,380; Sundry Debtors, £9,982; Stock, £1,571. The expenses of the realisation amounted to £378.

Prepare the accounts necessary to show the result of the realisation. (*Royal Society Arts.*)

125. A and B are partners sharing profits and losses equally. They

agree to dissolve partnership on December 31st. Their Balance Sheet at that date was as follows :—

Liabilities.	£	Assets.	£
A, Capital Account	3,700	Freeholds	3,000
B, Capital Account	900	Sundry Debtors	900
Sundry Creditors	400	Stock	1,700
Reserve Account	1,000	Cash	400
	£6,000		£6,000

A took over the Book Debts at £800. The Freeholds were sold to C for £3,500 cash, and the Stock for £1,500. He also paid £500 for the Goodwill of the business. The costs of realisation were £50. Show final accounts of the partnership.

With the money he obtained from the realisation of the partnership, A joined C, who contributed the assets he purchased from A and B, and also placed £1,000 cash in the new partnership. Show the opening Balance Sheet of A and C. (*Central Association Accountants.*)

126. The Balance Sheet of a firm on December 31st was as follows :—

Liabilities.	£	Assets.	£
Partner A, Capital ..	5,000	Freehold Property	8,000
Partner B, Capital	4,000	Investments	2,000
Partner C, Capital	3,000	Book Debts	1,000
Trade Creditors	2,000	Cash	3,000
	£14,000		£14,000

Partnership profits and losses were divided equally. The partnership was dissolved as on December 31st. The trade creditors were paid less 5 % discount. A agreed to take over the freehold property at £9,000, B the investments at £500, and C the book debts at £600.

Show the final partnership accounts. (*Chartered Accountants.*)

127. A, B, and C dissolved partnership on December 31st, on which date their assets and liabilities were as follows :—

Liabilities	£	£	Assets.	£
Sundry Creditors		4,000	Land and Buildings	3,000
Capital—			Machinery, Plant, and Loose	
A	8,000		Tools	1,050
B	6,000		Stock-in-Trade	2,600
C	5,000		Sundry Debtors	5,800
		19,000	Investments	10,000
			Cash in hand and at Bank	550
		£23,000		£23,000

Profits and losses had always been shared : A, one-half ; B, five-sixteenths ; C, three-sixteenths ; but there was no deed of partnership.

The assets (excluding cash in hand and at Bank) realised £18,950, and the expenses of realisation amounted to £500. By March 31, 1912, £11,000 had been received on account, and the creditors were then paid off, and £6,200 was paid to the partners on account. The balance of the realisation moneys was all received by June 30th, following, on which date the final distribution took place.

Show the Realisation Account, Cash Account, and the accounts of the partners. (*Chartered Accountants.*)

128. A B purchased a business from C D for the sum of £1,500 in cash and £500 in preference shares in a limited liability company which it was proposed to form.

The assets taken over consisted of :—

	£
Plant	300
Debts	950
Stock	250
Goodwill	500
	£2,000

A B put £50 into the concern in addition to the sum paid to C D, his capital at the date of conversion being therefore £1,550. He sold the business to the company for the sum of £3,000, £950 of which he took in ordinary shares, £1,550 he allowed to remain as a loan to the company, and £500 of preference shares he allotted to C D in accordance with the above agreement.

The company carried on business for three years, and the trading resulted in a loss of £500. It was then decided to wind up the company.

Assuming that the assets, excepting the goodwill, realised the book value, and the cost of winding up £50, show how much A B and C D should respectively receive. (*Incorporated Accountants.*)

129. A B and C D are partners sharing profits and losses in the following proportions respectively: three-fourths and one-fourth. C D, as working partner, was allowed a salary of £300 per annum; A B had no salary, but was allowed to draw £200 per annum out of profits, both sums being drawn monthly. The profits for the year ended December 31, 19. , were £1,000. On that date it was decided to dissolve partnership, the liabilities, general assets, and capital accounts of the business—before the profit for the year had been allocated—being as follows: A B, Capital Account Credit Balance, £100; C D, Capital Account Debit Balance, £100, Creditors, £200; Debtors, £350; Goodwill, £200; Cash at Bank, £350; Stock, £100. A B bought the Stock for £75, and took over the Book Debts at an agreed figure of £325. The goodwill realised nothing. Prepare final accounts. (*Central Association Accountants*)

130. State the principle laid down by Mr. Justice Joyce in the case of *Garner* v *Murray* for the adjustment of partners' accounts, when one partner is in debit after the realisation of assets. What was the recognised practice before this decision?

Illustrate your answer by a case where A, B, and C are three partners who divide profits equally. On the dissolution of the partnership the Balance Sheet stands thus:—

LIABILITIES.	£	ASSETS.	£
A	2,000	Cash	1,500
B	500	C	400
		Loss on Realisation	600
	£2,500		£2,500

(*Incorporated Accountants.*)

131. A, B, and C are partners with equal capital and dividing profits equally. C wishes to retire, and his partners agree to purchase his share after they have traded for a further three years.

The deed between the parties provides that a retiring partner shall receive by way of goodwill two years' purchase of the average of his share of the three years' profits preceding his retirement.

The following are the figures with which you have to deal. Prepare from them a Balance Sheet and Profit and Loss Account as at December 31, 19. , and also an account showing the amount payable to C.

The previous two years' profits were £8,908 and £11,010 respectively.

Capital: A, £4,000; B, £4,000; C, £4,000; Plant, Fixtures and Fittings, £7,420; Lease of Premises, £2,250; Stock, January 1, 19.., £3,800, (*Incorporated Accountants.*)

132. A. and B. Blank are partners. There is no partnership agreement. The partnership was dissolved as on December 31st, when the Balance Sheet was as follows :—

BALANCE SHEET, DECEMBER 31ST.

LIABILITIES.	£	ASSETS.	£
Capital—		Goodwill	2,500
A Blank	10,000	Freehold Premises	10,000
B Blank	5,000	Sundry Debtors	3,862
Sundry Creditors	3,714	Stock	2,480
Bank Overdraft	1,000	Cash in hand	10
		Cash at Bank	862
	£19,714		£19,714

The assets were realised as follows: Goodwill, £1,000; Freehold Premises, £12,500; Sundry Debtors, £2,972; Stock, £2,090. Allowances were obtained from creditors amounting to £270. The expenses of the dissolution amounted to £172.

Show the final result of the dissolution and the amounts payable to the partners. (*Chartered Institute Secretaries.*)

133. A and B have separate businesses, and they agree to amalgamate and enter into partnership.

The firm take over the following assets and liabilities :—From A: Land and Buildings, £10,000; Bills Payable, £3,000; Plant and Machinery, £5,000; Reserve for Discount on Debtors, £150; Stock-in-Trade, £3,000; Work in Progress, £1,000; Debtors, £5,500; Creditors, £6,000, Mortgage Creditor, £8,000; Bills Receivable, £2,000; Cash at Bank, £1,000. From B: Stock-in-Trade, £6,000; Creditors, £5,000; Debtors, £10,000; Cash at Bank, £2,000.

Make the opening Journal entries, and prepare Balance Sheet showing A's and B's capital respectively at the beginning of the new firm. (*Chartered Accountants.*)

134. Ellis and Brown are partners, sharing profits and losses equally, in a business similar to that carried on by Smith In order to avoid competition, they decided to amalgamate the two businesses by taking over the assets and liabilities of Smith, and admitting him into partnership with them as from December 31, 19... The Balance Sheets at that date of each business were as follows :—

ELLIS & BROWN.

LIABILITIES.	£	ASSETS.	£
Ellis, Capital	6,000	Cash at Bank	2,500
Brown, Capital	4,500	Debtors	8,600
Creditors	3,700	Stock	3,100
	£14,200		£14,200

SMITH.

LIABILITIES.	£	ASSETS.	£
Creditors	7,500	Cash at Bank	1,350
Bills Payable	2,650	Debtors	5,500
		Stock	2,000
		Smith, Capital Overdrawn	1,300
	£10,150		£10,150

The new partnership was to be carried on as Ellis, Brown & Smith, and it was agreed between all the parties that the book debts and stock of the business of Ellis & Brown were to be reduced by 10 % to cover bad debts and old stock for the purposes of the amalgamation, and that Smith was to be credited with such a sum for goodwill as would make his capital in

the new business equal to one-third of the joint capitals of Ellis & Brown therein. Prepare the Balance Sheet of Ellis, Brown & Smith as on December 31, 19.., after giving effect to these arrangements. (*Chartered Accountants.*)

135. Grey and Green amalgamated their businesses on January 1st, their Balance Sheets being as follows :—

G. GREY.

LIABILITIES.	£	ASSETS.	£
Creditors	500	Plant	5,000
Bank Overdraft	250	Debtors	1,000
Capital	7,250	Stock	2,000
	£8,000		£8,000

G. GREEN.

LIABILITIES.	£	ASSETS.	£
Creditors	400	Plant	500
Capital	1,935	Debtors	700
		Stock	300
		Cash	835
	£2,335		£2,335

(*a*) Prepare opening Balance Sheet for the partnership having regard to the following adjustments. Grey to be credited with goodwill, £3,000; Green to be credited with goodwill, £500; the value of Grey's plant to be reduced by 10 % and his stock by 5 %; the overdraft is paid off; a Reserve Account of 5 % on all debtors to be raised.

(*b*) Show their Capital Accounts at June 30th, the net profit for the half-year having been £4,000. Allow 5 % interest on capital, and divide the profit in proportion to the Capital Accounts. (*Central Association Accountants.*)

136. Smith and Brown are partners in the firm of Smith & Co. Both the firm and the individual partners are insolvent and there is no joint estate. What are the rights of the joint and separate creditors respectively? (*Central Association Accountants.*)

137. Judgment has been obtained against Smith for a private debt. Can execution issue against his share in the property of a firm of which he is a member? If not, how, if at all, can his interest in the firm be realised? (*Central Association Accountants.*)

138. Assuming that all the partners in an ordinary partnership are insolvent, what is the general principle applicable in the distribution of the assets between the creditors of the individual partners and the creditors of the firm? Mention any exceptions to the general rule. (*Incorporated Accountants.*)

139. Point out what is meant in an ordinary partnership by joint property of the firm as distinguished from separate property of the partners in it. What, if any, rights have the separate creditors of the partners against the joint property of the firm? (*Incorporated Accountants.*)

140. What is the difference between a limited partnership and a private company? Which is the more popular of the two forms of association, and for what reasons? (*Incorporated Accountants.*)

141. What particulars must be furnished upon the registration of a limited partnership? What liability does a limited partner incur in respect of the debts of the partnership? (*Chartered Accountants.*)

142. In a limited partnership, A is sole general partner, and B and C are limited partners, the capital being contributed A £3,000, B £2,000, and C £1,000, and they share profits and losses in those proportions. In the

first year they lost £9,000, and there being no assets whatever remaining in the business the firm is wound up. A having no other assets, what is the position of the creditors of the firm, and of B and C? How much, if anything, do the creditors lose? (*Chartered Accountants.*)

143. What particulars have to be given on the original registration of a limited partnership, and what facts are to be notified to the Registrar during the continuance of such partnership? (*Incorporated Accountants.*)

144. Is there any difference as regards grounds for dissolution between an ordinary and a limited partnership? On dissolution, in what manner and by whom are the affairs of a limited partnership to be carried to a termination? (*Incorporated Accountants.*)

145. Explain the power of a partner (*a*) in a limited partnership, (*b*) in other partnerships, to borrow money on account of the partnership and to pledge the partnership securities. (*Institute of Bankers.*)

CHAPTER X

INSOLVENCY

[*Note.*—Unless otherwise stated, the references in this chapter are to the *Bankruptcy Act*, 1914. *The Bankruptcy* (*Amendment*) *Act*, 1926, is referred to as "the Act of 1926."]

THE subject of bankruptcy is scheduled in the examination syllabuses of the various bodies of professional accountants. Professional accountants are frequently appointed trustees in bankruptcy proceedings, and for this reason it is essential that candidates seeking admission to the professional societies should acquire an adequate knowledge of Insolvency Law.

Frequent inquiries are made of the author by candidates for the commercial examinations as to the extent to which they should study the subject. So far as the author is aware, the Law of Bankruptcy is not scheduled in the syllabuses of the non-professional examining bodies, but candidates are expected to know how to prepare a Statement of Affairs, Deficiency Account, or other statutory return required in bankruptcy proceedings, and a knowledge of the chief legal rules affecting these statements is therefore necessary. For this reason, and because a general knowledge of the subject is useful to all business men, the commercial student should familiarise himself with insolvency proceedings.

The Bankruptcy Acts.—From first to last, some forty Bankruptcy Acts have been passed. In earlier days insolvency ranked almost as a crime, and debtors were most harshly treated. Later, traders were allowed to relieve themselves of their debts by surrendering all their property for the benefit of their creditors, and, by the Act of 1861, the same relief was extended to non-traders. The Act now regulating insolvency proceedings is the *Bankruptcy Act*, 1914 (as amended by the *Bankruptcy* (*Amendment*) *Act*, 1926), and the *Bankruptcy Rules*, 1915, made pursuant to that Act. The Act of 1914 was a consolidation Act, but parts of the Acts of 1883, 1890, and 1913 still remain in force. The tendency of all bankruptcy legislation has been to make the insolvent debtor's position more supportable, and at the same time to strengthen the protection of the creditor and the official control of bankrupt estates. The Act of 1914 does not, except so far as is expressly provided, apply to Scotland or Ireland (S. 169).

Definition of Bankrupt.—The student should distinguish between insolvency and bankruptcy. The latter term involves the former, and something more. An insolvent person is one who cannot

pay his debts. A bankrupt is a person against whom, by reason of his insolvency, the bankruptcy laws have been set in motion. Colloquially, both these persons are often referred to as bankrupts, but, from the statutory point of view, the latter only is a bankrupt. An insolvent person does not become bankrupt until the Court has adjudged him bankrupt.

Summary and Non-Summary Proceedings.—Bankruptcy proceedings are divided into two classes, viz. *Summary* and *Non-Summary*. By S. 129, where the Official Receiver [hereafter designated by the abbreviation O.R.] certifies that the total assets are not likely to exceed £300, the bankruptcy is dealt with by the O.R., who acts as the trustee, and treats the case summarily, unless the creditors, by a majority in number and three-fourths in value, resolve otherwise. This they rarely do. In these *small bankruptcies* there is no Committee of Inspection [hereinafter designated by the abbreviation C. of I.] and the proceedings (and expenses) are curtailed as much as possible.

Deeds of Arrangement.—Many insolvent persons never reach the stage of bankruptcy. It is common for an insolvent debtor to call a meeting of his creditors and to place before them a statement of his financial position, and at the same time to submit a scheme for the discharge of the whole or part of his liabilities. If the debtor's proposal is accepted, a *Deed of Arrangement* is prepared, and a trustee appointed to see that it is carried out. In this way the stigma and expense of bankruptcy proceedings are avoided. These deeds are dealt with fully at pp. 641–7.

Acts of Bankruptcy.—Unless a debtor presents his own petition he cannot be made bankrupt until it has been shown that he has committed an *Act of Bankruptcy*. That is to say, the Court must be satisfied that insolvency as legally defined has been proved. By S. 1 a debtor commits an act of bankruptcy in each of the following cases:—

(1) If he makes a conveyance or assignment of his property to a trustee or trustees for the benefit of his creditors generally.

[*Note.*—The assignment must be for the benefit of *all* the creditors. A deed of arrangement itself thus constitutes a formal Act of Bankruptcy.]

(2) If he makes a fraudulent conveyance, gift, delivery, or transfer of his property or of any part thereof.

[*Note.*—(As to the avoidance of such conveyances, *see* S. 172, *Law of Property Act*, 1925.) An assignment by a debtor of all his property to one or more creditors in satisfaction of past debts and to the exclusion of the remaining creditors, is fraudulent. So, also, is an assignment to a one-man company in return for shares, the company undertaking to pay his debts (*Re Hirth*, [1899] 1 Q B 612). But he may *sell* the whole of his property if he acts in good faith with his creditors, and, similarly, he may mortgage his property for a present advance The real test whether an assignment by a debtor of all or part of his property can be upheld as valid is supplied by the answers to the questions: (*a*) Was the debtor solvent at

the time of the assignment ? and (*b*) did he intend a fraud on all or any of his creditors by making the assignment ?]

(3) If he makes any conveyance or transfer of his property or any part thereof, or creates any charge thereon, which would under this or any other Act be void as a fraudulent preference if he were adjudged bankrupt.

[*Note.*—By S. 44, every conveyance or transfer of property, or charge thereon made, every payment made, every obligation incurred, and every judicial proceeding taken or suffered by any person unable to pay his debts as they become due from his own money in favour of any creditor, or of any person in trust for any creditor, with a view of giving such creditor, or any surety or guarantor for the debt due to such creditor, a *preference* over the other creditors, shall, if the person making, taking, paying, or suffering the same is adjudged bankrupt on a bankruptcy petition presented within three months after the date of making, taking, paying or suffering the same, be deemed fraudulent and void as against the trustee in the bankruptcy. But this shall not affect the rights of any person making title in good faith and for valuable consideration through or under a creditor of the bankrupt.

The onus of proof that the transaction amounts to a fraudulent preference lies upon the trustee. There is no fraudulent preference when an insolvent debtor makes a payment under legal pressure by a creditor who is unaware of the debtor's insolvency, but there is if the creditor has knowledge that his debtor is insolvent. The payment must be made voluntarily by the debtor and in fraud of his other creditors. The true test is : (1) Did the debtor intend to give a preference to the creditor ? and (2) Was that the operative effectual view ? (Bowen, L. J., in *ex p. Hill, In re Bird,* 23 Ch. D. 695).]

(4) If with intent to defeat or delay his creditors he does any of the following things, namely, departs out of England ; or, being out of England, remains out of England ; or departs from his dwelling-house, or otherwise absents himself ; or begins to keep house.

[*Note.*—The emphasis here is again on the *intention* of the debtor. If a debtor permanently resides abroad, his being out of England and his remaining out of England is no evidence of an intention to defeat or delay his creditors. But it would be evidence of such an intention if having habitually resided in England, he suddenly retired abroad and left no funds to meet his obligations. To "keep house" means to shut yourself up and deny yourself to your creditors, as, e g , where orders are given to servants that you are not "at home" to creditors.]

(5) If execution against him has been levied by seizure of his goods under process in an action in any Court, or in any civil proceeding in the High Court, and the goods have been either sold or held by the sheriff for twenty-one days. Provided that, where an interpleader summons has been taken out in regard to the goods seized, the time elapsing between the date

at which such summons is taken out and the date at which the proceedings on such summons are finally disposed of, settled or abandoned, shall not be taken into account in calculating such period of twenty-one days.

[*Note.*—The sheriff takes out an interpleader summons when two or more adverse parties claim goods in his possession, in order that the claimants may interplead, i.e., fight out their claims in a court of law.]

(6) If he files in the Court a declaration of his inability to pay his debts, or presents a bankruptcy petition against himself.

[*Note.*—The form of Declaration is given below]

(*Debtor's Declaration of Inability to Pay his Debts.*)

IN THE *HIGH* COURT OF *JUSTICE*.

IN BANKRUPTCY.

No. *399* of 19...

Re MILES FURTHER.

I, *Miles Further, Financial Agent,* residing at *1708 Rogers Place, London, N.W.*, and carrying on business at *the same address,* hereby declare that I am unable to pay my debts.

Dated this *first* day of *April,* 19...

(Signature) *Miles Further.*

Signed by the Debtor in my presence.

Signature: *Noah Little.*
Address: *174 Finsbury Parade,*
London, E.C.
Description: *Solicitor's Clerk.*

Filed the *first* day of *April,* 19...

NOTE.—Where the Debtor resides at a place other than his place of business both addresses should be inserted.

(7) If a creditor has obtained a final judgment or final order against him for any amount, and execution thereon not having been stayed, has served on him in England, or, by leave of the Court, elsewhere, a bankruptcy notice under this Act, and he does not, within seven days after service of the notice, in case the service is effected in England, and in case the service is effected elsewhere, then within the time limited in that behalf by the order giving leave to effect a service, either comply with the requirements of the notice, or satisfy the Court that he has a counter-claim, set-off, or cross-demand which equals or exceeds the amount of the judgment debt or sum ordered to be paid, and which he could not set up in the action in which the judgment was obtained, or the proceedings in which the order was obtained.

[*Note*—A bankruptcy notice must be in the prescribed form (S. 2), and this is illustrated at p. 592. In the great majority of cases, failure to comply with a bankruptcy notice is the act of bankruptcy on which the petition is grounded. It is the most usual because it is the one which a judgment creditor forces the debtor to commit, unless he satisfies the judgment, or gives security, or establishes a cross-claim at least equal to the judgment debt, which could not have been set up in the action in which the judgment was obtained.

(*Bankruptcy Notice.*)

Impressed 5s. Stamp.

IN THE *HIGH* COURT OF *JUSTICE.*
IN BANKRUPTCY.

No. *399* of 19..

Re MILES FURTHER.

Ex Parte : Martin Hard.
To *Miles Further,*
of *1369 Boxter Square,*
London, E.C.

TAKE NOTICE that within *seven days* after Service of this Notice on you, excluding the day of such service, you must pay to *Martin Hard,* of *1708 Rogers Place, London, N.W.,** the sum of *£105* claimed by him as being the amount due on a Final Judgment obtained by him against you in the *Shoreditch County* Court, dated *March 28, 19* ., whereon execution has not been stayed; † or you must secure or compound for the said sum to his satisfaction or the satisfaction of the Court, or you must satisfy the Court that you have a counter-claim, set-off or cross-demand against *Martin Hard* which equals or exceeds the sum claimed by him, and which you could not set up in the action in which the Judgment was obtained.

Dated this *third* day of *April,* 19...
BY THE COURT,
Justin Sterne, Registrar.

YOU ARE SPECIALLY TO NOTE :—

That the consequences of not complying with the requisitions of this Notice are, that you will have committed an act of Bankruptcy on which Bankruptcy proceedings may be taken against you.

If, however, you have a counter-claim, set-off or cross-demand which equals or exceeds the amount claimed by *Martin Hard* in respect of the Judgment, and which you could not set up in the action in which the said Judgment was obtained, you must, within *three* days, apply to the Court to set aside this Notice by filing with the Registrar an Affidavit to the above effect.

Patrick Partner,
Solicitor, suing out this Notice,
1717 Finsbury Crescent,
London, E.C.

* If an agent has been duly appointed to collect, alter form accordingly
† Or "on which execution has been but is not now stayed."

A number of technicalities which had grown up round the bankruptcy notice have now been removed. Formerly a creditor abroad could not, in effect, issue a bankruptcy notice, because the debtor could not be required to go abroad and seek out his creditor in order to pay him But now the creditor may appoint an agent for the purpose of receiving the money. Under the old law a number of bankruptcy notices failed because by some mistake they claimed a larger amount than the debtor could strictly be required to pay, and as the debtor was not bound to comply with such a notice it was held that no act of bankruptcy had been committed.

Under the present Act a bankruptcy notice is not invalidated because it claims too much unless the debtor disputes the notice, but he is deemed to comply with the notice if he pays the correct

amount. The judgment on which a bankruptcy notice is based must still be "final" in character, though the distinction formerly drawn between "final" judgments and "final orders" has been abolished. But the judgment must still be a judgment obtained in England.

If the debtor disputes that he owes the money, he must, within three days after service, file an affidavit stating the facts on which he relies. The Registrar then hears the case, and, if the debtor succeeds, sets aside the notice. It will be observed also that the judgment upon which a bankruptcy notice can be founded is one upon which execution has not been stayed. So long as the *Courts (Emergency Powers) Acts* remained in force this was a point of special importance. For against any debtor in respect of a debt contracted before August 4, 1914, and against a member of His Majesty's Forces in respect of a debt contracted at any time, a judgment could not be enforced without obtaining leave to do so under the *Courts (Emergency Powers) Acts*. The leave of the Bankruptcy Court to issue a bankruptcy notice must also be obtained; and even when matters have reached the stage of a petition the Court has discretion to stay proceedings.]

(8) If the debtor gives notice to any of his creditors that he has suspended, or that he is about to suspend, payment of his debts.

[*Note.*—This, probably is, after (7), the most frequent ground for a petition. A circular issued by a debtor calling his creditors together to consider his financial position will generally constitute a "suspension" in the sense required. But there need be no actual writing, so long as it is clear from the words used by the debtor that he intends to suspend payment.]

(9) By S. 107 (4), where application is made to the Court by a judgment creditor for the committal of a judgment debtor, the Court may, if it thinks fit, decline to commit, and in lieu thereof, with the consent of the judgment creditor, make a receiving order [hereinafter designated by the abbreviation R.O.] against the debtor. In such case the debtor shall be deemed to have committed an act of bankruptcy at the time the order is made. Before the Court can make a R.O. under this section, it must have such evidence of means as would justify a committal order.

Who May be made Bankrupt.—Any adult person who has committed an act of bankruptcy within three months of the date of the petition and whose debts amount to £50 may be made bankrupt. It is doubtful whether an infant can ever be made bankrupt, but possibly he can, after he has attained his majority, if the debts were contracted for the supply of necessaries.

Bankruptcy proceedings against a firm of which one member is an infant should be brought against the firm *except* the infant partner.

Foreigners.—By S. 4 (*d*), an alien debtor may be made bankrupt

if he is subject to English bankruptcy jurisdiction. That is, if he is domiciled in England; or within a year before the date of the presentation of the petition has ordinarily resided, or had a dwelling-house or place of business, in England, or (except in the case of a person domiciled in Scotland or Ireland or a firm or partnership having its principal place of business in Scotland or Ireland) has carried on business in England, personally or by means of an agent or manager, or (except as aforesaid) is or within the said period has been a member of a firm or partnership of persons which has carried on business in England by means of a partner or partners, or an agent or manager.

Married Women—The common law rule was that no married woman could be made bankrupt. But statutory exceptions have been introduced, and now every woman who carries on a business, whether married or single, or trading alone or in conjunction with her husband, may be declared bankrupt as if she were a single woman (S. 125). In such a case, upon judgment being obtained against her, she is liable to be served with a bankruptcy notice as if she were personally bound to pay, although the judgment itself may only extend to her separate property.

Where a married woman is possessed of separate property, the income from which she is restrained from anticipating, the Court has power, on the application of the trustee, to remove the restraint (S. 52). A husband who has advanced money for purposes of trade to a bankrupt wife can prove against the estate, but he is postponed till all the other creditors of the wife have been satisfied (S. 36).

Lunatics.—Persons of unsound mind can only be made bankrupt with the consent of the Court in Lunacy.

Convicts—These may be made bankrupt.

Partnerships.—Firms, like individuals, come within the ordinary bankruptcy procedure. A R.O. made against a firm operates as a R.O. against each partner of the firm separately (Rule 285). The order of adjudication is made against each partner individually (Rule 288). A Statement of Affairs must be submitted jointly for the partnership, and, in addition, each partner must submit a statement of his private affairs (Rule 287). Limited partnerships also come within the ordinary procedure, and when all the general partners become bankrupt the assets of the limited partnership are vested in the trustee (S. 127 and Rule 290)

The Petition.—As in compulsory liquidation, so in bankruptcy the proceedings may be inaugurated either by the creditor or the debtor. In either case a petition must be presented to the Court. The majority of petitions are hostile, and presented by creditors. Should a bankrupt present his own petition, it must be in the form shown at p 595, and then the R.O. is usually made immediately upon payment of the Court fee of £5 and a deposit of £5 towards the O.R.'s fees. If the debtor files the petition the £5 deposit is retained as part of the estate assets. If a creditor files the petition it is returned to him if the assets prove sufficient, the payment being entered in the "Other Payments" column of the

Estate Cash Book. Any creditor whose debt amounts to at least £50 can present a petition, and two or more creditors may combine their debts to reach the required minimum. A firm can petition through a partner, and a limited company through an authorised officer, usually the secretary. When a creditor petitions, he must show that

(*a*) The debt due, or the joint debts if more than one creditor petitions, amounts to £50.

(*b*) The debt is a liquidated sum, payable either immediately or at some certain future time.

(*c*) The act of bankruptcy on which the petition is grounded has occurred within three months before the presentation of the petition.

(*d*) The debtor is subject to English bankruptcy jurisdiction [S. 4 (1)].

(Debtor's Petition.)

IN THE *HIGH* COURT OF *JUSTICE.*

IN BANKRUPTCY.

Re MILES FURTHER. No. *399* of 19...

Ex Parte : Miles Further.

I, *Miles Further, Financial Agent,* lately residing at *1708 Rogers Place, London, N.W.,* having for the greater part of the past six months resided at *1708 Rogers Place, London, N.W.,* within the district of the *Court,* and being unable to pay my debts, hereby petition the Court that a Receiving Order be made in respect of my Estate, *and that I may be adjudged a bankrupt.*

Dated this *sixth* day of *April,* 19...

(Signature) *Miles Further.*

Signed by the Debtor in my presence.

Signature of Witness : *Noah Little.*
Address : *174 Finsbury Parade, London, E.C.*
Description : *Solicitor's Clerk.*

Filed the *sixth* day of *April,* 19...

NOTE.—Where the Debtor resides at a place other than his place of business, both addresses should be inserted.

The petition must give details of the act of bankruptcy relied upon. If the debt is secured, the creditor must value his security and show that the unsecured balance amounts to £50, or give up his security. The Court may inquire into the consideration for the debt, even when, as is usually the case, judgment has been obtained. The petition must be verified by the creditor's affidavit. When the Court has fixed the date for hearing, a sealed copy of the petition must be served on the debtor not less than eight days before the day fixed. If the debtor desires to oppose the petition, he must file notice of his objection with the Registrar, and also give notice to the petitioner and to his solicitor three days prior to the date for hearing. A form of creditor's petition is shown at p. 596.

(*Creditor's Petition.*)

IN THE *HIGH* COURT OF *JUSTICE.*

IN BANKRUPTCY.

Re MILES FURTHER. No. *399* of 19...

Ex Parte : Martin Hard.

I, Martin Hard, of *3642 Harvey Street, London, E.C.,* hereby Petition the Court that a Receiving Order be made in respect of the estate of *Miles Further, Financial Agent, 1708 Rogers Place, London, N.W.,* and say :—

1. That the said *Miles Further* has for the greater part of six months next preceding the presentation of this Petition *been residing* at *1708 Rogers Place, London, N.W.,* within the district of this Court.

2. That the said *Miles Further* is justly and truly indebted to *me* in the sum of *£105 for goods supplied.*

3. That *I* do not, nor does any person on *my* behalf hold any security on the said debtor's estate, or on any part thereof, for the payment of the said sum.

4. That *Miles Further* within three months before the date of the presentation of this Petition has committed the following act of Bankruptcy, namely :—*Filed a declaration of inability to pay his debts in the High Court of Justice on April 1, 19...*

Dated this *fourth* day of *April,* 19...

(Signed) *Martin Hard.*

Signed by the Petitioner in my presence,
Samuel Smart,
16 Grange Road, S.W.
Solicitor's Clerk.

This is the petition referred to in the affidavit of *Martin Hard.* Sworn before me this *fourth* day of *April,* 19... } *Patrick Partner,* *Commissioner for Oaths.*

Filed the *fifth* day of *April,* 19.., and allotted to Mr. Registrar Dryden Deed.

NOTE.—If there be more than one Petitioner, and they do not sign together, the signature of each must be separately attested, e.g. "Signed by the Petitioner *E. F.,* in my presence." If the Petition be signed by a firm the partner signing should add also his own signature, e g. "*A. S & Co.* by *J. S.,* a partner in the said firm" If the Debtor resides at any place other than the place where he carries on business, both addresses should be inserted.

INDORSEMENT.

This Petition having been presented to the Court on the *ninth* day of *April,* 19 ., it is ordered that this Petition shall be heard at the Court sitting in Bankruptcy, *Carey Street, Lincoln's Inn, W C.,* on the *fourteenth* day of *April,* 19.., at *eleven* o'clock in the *forenoon.*

And you, the said *Miles Further,* are to take notice that if you intend to dispute the truth of any of the statements contained in the Petition, you must file with the Registrar of this Court a Notice showing the grounds upon which you intend to dispute the same, and send by post a copy of the Notice to the Petitioner three days before the date fixed for the hearing.

The petition should also be registered in the Land Registry as a pending action in order to protect the title of the Trustee and all other parties against subsequent dealings with land forming part of the debtor's estate. The R.O., when made, should also be registered. (See SS 2, 3 (2), 3 (3) and 6, *Land Charges Act,* 1925; S. 198, *Law of Property Act,* 1925; S. 61, *Land Registration Act,* 1925.)

Jurisdiction in Bankruptcy.—The Courts having jurisdiction in bankruptcy are:—

(1) The High Court of Justice, if the debtor has resided or

carried on business within the London bankruptcy area for the greater part of the six months immediately preceding the presentation of the petition, or for a longer period during those six months than in the district of any County Court, or is not resident in England, or if the petitioning creditor is unable to ascertain the residence of the debtor.

In any other case the petition is to be presented to:—

(2) The County Court for the district in which the debtor has resided or carried on business for the longest period during the six months immediately preceding the presentation of the petition. Nothing, however, in this section is to invalidate a proceeding by reason of its being taken in a wrong Court (S. 98 and Rules 24 and 147). (By the latter Rule the venue is to be determined by the place of business, in cases where the debtor resides within the jurisdiction of one County Court and carries on business within that of another County Court.)

Receiving Order.—If the Court grants the petition, a R.O. is made against the debtor. This order is illustrated below.

(Receiving Order.)

IN THE *HIGH* COURT OF *JUSTICE.*

IN BANKRUPTCY.

Re MILES FURTHER. No. *399* of 19...

Ex Parte : Martin Hard,
3642 Harvey Street,
London, E C.

On the Petition (dated the *fourth* day of *April*, 19.., and numbered *399* of *19..*) of *Martin Hard*, of *3642 Harvey Street, London, E.C.*, a Creditor, filed the *fifth* day of *April*, 19.., and on reading *the said petition* and hearing *both parties*, and it appearing to the Court that the following act or acts of Bankruptcy has or have been committed, viz. :—*That on April 1, 19.., the debtor filed a declaration of his inability to pay his debts*, a Receiving Order is hereby made against *Miles Further, 1708 Rogers Place, London, N.W*, and *the Official Receiver* of this Court is hereby constituted Receiver of the Estate of the said Debtor.

Dated this *fourteenth* day of *April, 19...*

BY THE COURT,
Dryden Deed,
Registrar.

NOTE.—The above-named Debtor is required, immediately after the service of this order upon him, to attend the Official Receiver of the Court at his Offices at *Carey Street, W.C.*

The Official Receiver's Offices are open every week-day from 10 a.m. to 4 p.m., except *Satur*days, when they close at *one* p.m.

The Name and Address of the Solicitor to the Petitioning Creditor are *Patrick Partner, 17 Finsbury Crescent, E.C.*

The O.R., who is an officer of the Court, then immediately becomes receiver of the debtor's property, and all actions against the debtor are stayed. The R.O does not deprive the debtor of his property. Its effect is to protect the property until the creditors have decided whether any scheme of composition which the debtor may propose shall be accepted, or whether he shall be made bankrupt. Notice of the R.O. is sent to the Board of Trade [hereinafter designated by the abbreviation B. of T.], and advertised in the *Gazette* and

a local paper. A duplicate of the order is sent to the O.R., who, in turn, servers a copy on the debtor.

STATEMENT OF AFFAIRS.

After the R.O. is made, the first duty of the debtor is to prepare a "Statement of Affairs," and usually he procures professional assistance for the purpose, permission for which is generally granted under S. 74 (2). The statement must be lodged with the O R. within three days if the debtor presents his own petition, and within seven days if a creditor presents the petition.

Usually longer time is required, and this is granted by the O.R., due cause being shown (Rule 190). Creditors are entitled to inspect the statement, or to obtain copies of the whole or any part of it at the rate of 4d. per folio Particulars of any arrangement which the debtor desires to submit to the creditors must be lodged with the O.R. within four days of the deposit of the statement.

If the O.R. is of opinion that the trading results disclosed by the Statement of Affairs require explanation, or the trading appears to have been reckless, he can require the debtor to prepare Trading and Profit and Loss Accounts, and a Cash (see p. 599) and Goods Account (see below), for a period not exceeding two years prior to the R.O., unless ordered by the Court to furnish accounts for a longer period (Rule 325).

IN THE .... COURT OF ....

IN BANKRUPTCY.

No. .... of 19...

Re................................

GOODS ACCOUNT.

FROM THE ...... DAY OF . ...., 19.., TO THE ..... DAY OF ......, 19...

N.B.—This account must contain a full and complete account of all goods received and disposed of by you.

Date.	From whom Purchased.	Nature of Goods				Date.	To whom Sold	Nature of Goods.			
19. .	To Stock in hand ..		£	s.	d	19 .			£	s.	d

Statutory Form of Statement of Affairs.—The preparation of a Statement of Affairs in compulsory liquidation of a limited company is dealt with at pp. 455–68. The prescribed form of the corresponding Statement in bankruptcy proceedings, with the Schedules, are given at pp 604–11 The statement must be in duplicate, one copy being verified. In principle, and largely too in detail, the statements are similar, and it is not therefore necessary to deal again in detail with all the items appearing in the statement and the schedules. The trader's Balance Sheet, based upon "going concern" values of his assets, is replaced by a statement of the same assets assessed at their immediately realisable

values, with all charges upon them, if any, deducted The object of the Statement is to show what surplus of assets remains for distribution amongst the unsecured creditors after the preferential and secured liabilities have been met.

Preferential Debts.—The preferential debts in bankruptcy are the same as those in compulsory winding up, except that sums due for national insurance are only preferential for *four* months' contributions (see pp 441–2 and S 33), but the amounts of such debts are calculated from the date of the R.O In addition to these, there are in bankruptcy proceedings the following:—

(1) Funeral and testamentary expenses incurred by the legal personal representative of a deceased insolvent [S. 130 (6)].

(2) Such a moiety of any fee paid in advance to the bankrupt by an apprentice or articled clerk as the trustee may think reasonable, having regard to the fee paid and the time served by such apprentice or clerk (S. 34).

IN THE .... COURT OF ....

IN BANKRUPTCY.

No. .... of 19...

Re.......................... .....

CASH ACCOUNT.

From ......, 19.., to ......, 19...

N.B.—This account must contain a full and complete account of all receipts and payments of every description within the period stated. A Summary of the Receipts and Payments, classified under their several heads, must be given at the end of the account. The account, when completed, must be signed and filed in duplicate.

RECEIPTS PAYMENTS.

Date.	From whom Received.	On what Account.	Amount Received £	s.	d.	Date	To whom Paid	On what Account	Amount Paid. £	s	d.
19...	To Balance in hand					19...					
	,, Balance at Bank										

(3) Money or property belonging to a savings bank, which has come into the possession of a bankrupt official of the bank by virtue of his office, must be refunded to the bank before any other debt of the bankrupt is discharged (*Savings Bank Act*, 1863, S. 14).

(4) Similarly, money or property belonging to a friendly society and held by a bankrupt official of the society must first be refunded (*Friendly Societies Act*, 1896 S. 35).

Landlord.—The landlord is not a preferential creditor in the statutory sense, but he may become a preferential creditor by distraining upon the debtor's effects. He may distrain for the whole of the arrears of rent before commencement of the bankruptcy, but if he distrains after commencement he can only recover

six months' rent accrued due prior to the adjudication (S. 35). He can, however, prove as an ordinary creditor for the balance. It will be noted that space is provided for "Creditors for rent recoverable by distress" in the summary. No such provision exists in a compulsory winding-up summary, as power of distress does not exist after winding-up proceedings have been commenced, except by leave of the Court, which is given only in very special circumstances. Even where distress has been levied, and a R.O., or winding-up order (in the case of a limited company), has been made within three months afterwards, the landlord must pay the preferential creditors out of the proceeds But he has a preferential charge on the remainder of the debtor's assets for any money thus paid out (S. 33, ss. 4). In any event, the landlord's claim is limited to the value of the property housed on the premises. Ground rents, being a charge on the property, are payable in full however much in arrear they may be.

Telephone.—The Postmaster-General is not a preferential creditor; his claim should be entered in the List of Unsecured Creditors (List A).

Taxes assessed to April 5th preceding the R O. for one year are preferential. If more than one year's taxes are due, any one year may be claimed at the option of the authorities. Income Tax deducted by the debtor under Rule 21, all Schedule Rules, *Income Tax Act,* 1918, when paying interest, etc., enjoys the same preferential rights as tax otherwise assessed (S. 26, *Finance Act,* 1927).

Judgment Creditors.—No execution against the land or goods of a debtor, and no attachment of debts due to him, is valid against the trustee, unless the judgment creditor has completed the execution or attachment before the date of the R O. and before he had notice that a bankruptcy petition had been made by or against the debtor, or that the debtor had committed an available act of bankruptcy. Execution against land is completed by seizure, or, where the judgment creditor's interest is equitable only, by the appointment of a receiver; execution against goods is completed by seizure and sale [*Note.*—Not by the debtor paying money to the creditor in order to avoid sale]; attachment of a debt is completed by receipt of the debt (S. 40 [1 and 2]).

We have already seen (p. 590) that a debtor who permits his goods to be seized in execution of a judgment against him thereby commits an act of bankruptcy. But execution so levied is not invalid on that account alone, and a purchaser of goods in good faith under a sale by the sheriff in all cases acquires an indefeasible title to the goods (S. 40 [3]).

But if before sale and irrespective of the amount of the judgment the sheriff receives notice that a R.O. has been made against the debtor, the sheriff must, on request, deliver the goods and any money seized or received in part satisfaction of the levy to the O.R. But the costs of the execution are a first charge on the goods or money delivered up, and the O.R. may sell the whole or any part of the goods in order to satisfy the charge. And further, if the levy (including the costs of the levy) exceeds £20

in value, and it is satisfied either by payment of money to avoid sale, or by the proceeds of sale, the sheriff must deduct the costs of levying execution and hold the balance for fourteen days. If within that time the sheriff has notice that a petition has been presented by or against the debtor, and a R O. is made thereon, he must pay over the proceeds to the O R. or the trustee, as the case may be, and either is entitled to retain the proceeds against the judgment creditor (S. 41 [1 and 2]).

Goods sold by the sheriff under an execution, if for a sum (including costs) exceeding £20 in value, must, unless the Court otherwise directs, be sold by public auction, duly advertised for three days prior to the day of sale.

Examination Errors.—Examination candidates, when submitting a Statement of Affairs, frequently fail in the following particulars :—

(*a*) The surplus, if any, shown by the securities held by the fully secured creditors must be *added* to the assets in the space provided on the *credit* side of the statement.

(*b*) The preferential creditors for rent, rates, taxes, wages, etc., must be *deducted* from the total assets in the space provided on the *credit* side of the statement.

(*c*) The "good" book debts must be carried into the *outer column* on the credit side ; the "doubtful" and "bad" debts only are entered short, added together, and the estimate of their value extended into the outer column.

(*d*) When realisation or valuation figures are quoted for any of the assets, it is the *estimated figures* which are carried into the outer column, *and not the book figures.*

These may seem points too simple to mention, but experience shows that they are frequent sources of error.

Deficiency Account.—As in the case of company liquidation, the Statement of Affairs in bankruptcy usually shows a balance which represents a deficiency. This deficiency has to be accounted for in a separate statement called the *Deficiency Account.* An example of this is given at p. 611. Some Statements of Affairs show a surplus, but such "surpluses" are seldom realised !

Responsibility for the Statement.—This rests with the debtor, who must verify it by affidavit. The O R. supplies the statutory forms, and these must be lodged in duplicate by the debtor with the O.R. within the statutory time, or any extension of it that he may have allowed. In the case of a bankrupt firm, a separate Statement of Affairs must be lodged for the private estate of each partner, in addition to the joint statement for the firm. Usually the debtor satisfies the O.R. that he is incompetent to prepare the statement unaided, and so obtains leave to employ professional assistance at the expense of the estate.

The preparation of the statement is often difficult, especially when the debtor has but a slender knowledge of book-keeping and his memory is, naturally or intentionally, faulty. If proper books of account have been kept, the first step is to complete them

to the date of the R O , extract a trial balance, and so secure a list of the assets at their book values. From the same source the schedules of creditors will be prepared. The responsibility for the revaluation of the assets lies with the debtor. Particulars of any private debts which do not appear in the business books must be added. The creditors must be classified, in the schedules provided, as between unsecured and fully or partly secured creditors and creditors for rent, rates,* taxes, wages, etc. Debts contracted with persons who had notice of an available act of bankruptcy must not be included, as these are not provable in bankruptcy.

[*Note.*—An available act of bankruptcy means an act available for a bankruptcy petition at the date of the presentation of the petition on which the receiving order was made.]

If the debtor has discounted bills of exchange, or is liable upon accommodation bills or promissory notes, full particulars must be set out in List D. Any liabilities not yet crystallised, such as those arising under contracts, leases, guarantees, partly paid shares, gambling claims, and so on, must be entered in List E.

It is often difficult to persuade the debtor to place reasonable values upon the assets. As a rule, he wears rose-tinted spectacles when valuing his resources. If the stock-in-trade is heavy, it should be independently valued. If expert valuations of such assets as Leases, Plant and Machinery, Fixtures, Patents, etc., are not available, they should be very conservatively estimated. In addition to the assets disclosed by the trading books, particulars must be given of any private property of the debtor, such, for example, as investments, life policies, reversions, patent rights, freehold or leasehold property, furniture,† jewellery, etc. Book debts must be carefully analysed, and scheduled as between "good," "doubtful," and "bad," and here the debtor's opinion must, in most cases, be relied upon. Trade discounts must be deducted, and returns and allowances and set-offs adjusted.

When possible, the Deficiency Account should cover three years, or such other period as the O.R. may indicate. The composition of this account has already been explained at p. 458. Sometimes, it is impossible to prepare an accurate Deficiency Account, since, in some cases, the debtor's Bank pass-books, supplemented by his personal explanations, are the only material available for its construction.

First Meeting of Creditors.—The O.R. must call the "First Meeting of Creditors" within fourteen days of the R O., unless for any reason the Court fixes a later date. The notice convening the meeting is accompanied (1) by a copy of the "front sheet" of the Statement of Affairs ; (2) a proxy form (general and special) ; (3) a proof of debt form ; and (4) a copy of the scheme of arrangement (if any) proposed by the debtor. The O.R. will append

* A water rate is only preferential if the water is supplied by the local authority.

† Very frequently this asset is unavailable owing to the fact that it has been settled on the debtor's wife.

to the Summary of the Statement of Affairs any comments which he considers it advisable to make. In a firm's bankruptcy, both the separate and joint estate creditors should be summoned to the meeting. Any creditor may attend this meeting, and all creditors who have proved their debts may vote upon the resolu-

Illustration.—The Balance Sheet of Miles Further as on April 14, 19.., was as follows.—

BALANCE SHEET.

Dr.	£	£	s.	d.	Cr.	£	s.	d.
Capital Account—					Furniture and Fixtures	150	0	0
As on March 31, 19.. ..	850				Patents	500	0	0
Less Drawings	815				Sundry Debtors	650	0	0
		5	0	0	Stock-in-Trade (at cost) ..	400	0	0
Bank Loan		1,000	0	0	Investments . ..	2,095	0	0
Sundry Creditors		3,650	0	0	Cash in hand	10	0	0
Bills Payable		100	0	0	Cash at Bank	100	0	0
					Profit and Loss Account ..	850	0	0
		£4,755	0	0		£4,755	0	0

The loan from the Loamshire Bank, Ltd., was secured by the deposit of 1,200 shares of £1 each in Bouquet d'Or, Ltd. Ronald Doone, a creditor for £600, and Edward Clooney, a creditor for £500, were partly secured by the deposit of 300 and 200 shares respectively in Bouquet d'Or, Ltd.

The assets were valued by Miles Further as follows :—

	£	s.	d.
Furniture and Fixtures..	95	0	0
Patents		Nil	
Sundry Debtors—			
Good	350	0	0
Doubtful, £200, valued at	100	0	0
Bad, £100, valued at		Nil	
Stock-in-Trade	200	0	0
Investments	2,095	0	0

Miles Further also possessed household furniture and effects valued at £300, and a life policy with the Steadfast Assurance Company for £500, the surrender value of which amounted to £65. The debtor advanced £15, being all his private cash, to his solicitor for the costs of the petition

In addition to the 1,700 fully paid shares of £1 each in Bouquet d'Or, Ltd., deposited as security with creditors, the debtor possessed 300 fully paid shares of £1 each in the Promise Mine, Ltd , and 95 fully paid shares of £1 each in the Rapide Motor Company, Ltd All these shares were valued by the debtor at par. The dividend received during the 31st March in the preceding year amounted to £295 Of the £3,650 due to creditors, £50 was preferential, and a further £25, preferential liabilities for salaries to April 14th, was found to have been omitted from the Balance Sheet and Profit and Loss Account. During the period, £200 had been lost on the Stock Exchange, £35 had been spent in law costs and £890 in living expenses.

Prepare a Statement of Affairs (accompanied by the Statutory Schedules) and a Deficiency Account. See pp 604-11.

tions submitted. The votes of creditors may be recorded personally, or by proxy, or by *voting letters*, which provide for a decision for or against the scheme A scheme of composition requires for its approval a majority in number and three-fourths in value of all creditors who have proved their claims, and, therefore, in this particular case (as opposed to the ordinary and special resolutions referred to below) creditors who do not vote are deemed to be against the proposal.

THE BANKRUPTCY ACT, 1914.

STATEMENT OF AFFAIRS.

In the * *High* Court of *Justice*.

IN BANKRUPTCY.

No. *399* of 19..

Re MILES FURTHER.

TO THE DEBTOR.—You are required to fill up, carefully and accurately, this Sheet, and such of the several Sheets A, B, C, D, E, F, G, H, I, J, and K,† as are applicable, showing the state of your affairs on the day on which the Receiving Order was made against you, viz the *fourteenth* day of *April*, 19...
Such Sheets, when filled up, will constitute your Statement of Affairs, and must be verified by Oath or Declaration.

Gross Liabilities £	s.	d.	Liabilities (as stated and estimated by Debtor)	£	s	d	Expected to Rank £	s.	d
2,600	*0*	*0*	Unsecured Creditors, as per list (A)				*2,600*	*0*	*0*
1,000	*0*	*0*	Creditors fully secured, as per list (B)	*1,000*	*0*	*0*			
			Estimated value of securities	*1,200*	*0*	*0*			
			Surplus	*200*	*0*	*0*			
			Less amount thereof carried to Sheet C						
			Balance thereof to contra	*200*	*0*	*0*			
1,100	*0*	*0*	Creditors partly secured, as per list (C)	*1,100*	*0*	*0*			
			Less estimated value of securities	*500*	*0*	*0*			
							600	*0*	*0*

Assets (as stated and estimated by Debtor).	Estimated to produce. £	s.	d
Property, as per list (H), viz.:—			
(*a*) Cash at Bankers	*100*	*0*	*0*
(*b*) Cash in hand	*10*	*0*	*0*
(*c*) Cash deposited with Solicitor for costs of Petition .	*15*	*0*	*0*
(*d*) Stock-in-Trade (cost £*400 0 · 0*)	*200*	*0*	*0*
(*e*) Machinery			
(*f*) Trade fixtures, fittings, utensils, etc.	*95*	*0*	*0*
(*g*) Farming stock			
(*h*) Growing crops and tenant right			
(*i*) Furniture	*300*	*0*	*0*
(*j*) Life Policies	*65*	*0*	*0*
(*k*) Stocks and Shares	*395*	*0*	*0*
(*l*) Reversionary or other interests under Wills			
(*m*) Other property, viz.:—			
Total as per list (H)	*1,180*	*0*	*0*

£	s	d		£	s	d
			Liabilities on bills discounted other than debtor's own acceptances for value, as per list (D), viz. —			
			On accommodation bills, as drawer, acceptor, or indorser	£		
			On other bills, as drawer or indorser	£		
				£		
			Of which it is expected will rank against the estate for dividend			
150	0	0	Contingent or other liabilities as per list (E)	£150	0	0
			Of which it is expected will rank against the estate for dividend	£	s	d
			Creditors for rent, etc., recoverable by distress as per list (F)			
75	0	0	Creditors for rates, taxes, wages, etc., payable in full, as per list (G)	75	0	0
			Sheriff's charges payable under section 11 of the Bankruptcy Act, 1890, estimated at			
			Deducted contra	£75	0	0
			‡ Surplus explained in statement (K)			
4,925	0	0		£ 3,200	0	0

	£	s	d	£	s	d
Book debts, as per list (I), viz.—						
Good				350	0	0
Doubtful	200	0	0			
Bad	100	0	0			
	£300	0	0			
Estimated to produce				100	0	0
Bills of Exchange or other similar securities, on hand, as per list (J) .. .. £						
Estimated to produce						
Surplus from securities in the hands of creditors fully secured (per contra)				200	0	0
				1,830	0	0
Deduct creditors for distrainable rent, and for preferential rates, taxes, wages, Sheriff's charges, etc (per contra)..				75	0	0
£				1,755	0	0
‡ Deficiency explained in statement (K)				1,445	0	0
£				3,200	0	0

* High Court of Justice *or* the County Court of ——, holden at ——

† Sheet "L" should be substituted for any one or more of the sheets named as will have to be returned blank

‡ Strike out which words do not apply.

I, *Miles Further*, of *1708 Rogers Place*, in the County of *London*, make oath and say, that the above Statement and the several lists hereunto annexed marked *A, B, C, E, G, H, I, K*, are to the best of my knowledge and belief a full, true, and complete statement of my affairs on the date of the above-mentioned Receiving Order made against me.

Sworn at *174 Finsbury Parade, E.C.*, in the county of *London*, this *15th* day of *April*, 19.., before me, *Saul Firm*. } (Signature) *Miles Further.*

Filed in the Office of the Official Receiver, this .... day of ...., 19...
Verified Statement filed in Court, this .... day of ...., 19...

Two resolutions are employed in bankruptcy proceedings, viz. (1) *Special Resolutions*, which require to be passed by a majority in number representing in value three-fourths of the creditors present, personally or by proxy, at a meeting of creditors and voting on the resolution; and (2) *Ordinary Resolutions*, which require, under like conditions, a majority in value only.

The main business of the first meeting is (1) to decide whether the scheme of composition, if one has been proposed by the debtor, shall be accepted; (2) if the scheme is rejected, to decide whether the debtor shall be adjudicated a bankrupt; (3) to appoint a Trustee and a Committee of Inspection.

Scheme of Composition (S. 16).—In order to be binding, a "Scheme of Composition" must first receive the assent of a majority in number, representing three-fourths in value, of all the creditors who have proved their debts, and afterwards be sanctioned by the Court. When application is made to the Court to confirm the scheme, three days' notice of the date of the hearing must be given to all creditors who have proved their debts. Four days before the hearing the O.R. files a report giving his views upon the reasonableness, or otherwise, of the scheme, and the extent to which creditors are likely to benefit thereby. Many proposed schemes are rejected by the Court in the public interest. In any case, the approval of the Court will not be granted until the debtor's public examination has been concluded. To obtain the approval of the Court the bankrupt's conduct must be shown to have been free from acts that would delay or prevent his discharge; the scheme must offer advantages to the creditors not obtainable under bankruptcy proceedings; and it must provide for the payment of preferential debts and costs, and afford reasonable security for the payment of not less than 5s. in the £ on the unsecured debts. One of the most common advantages usually claimed for such schemes is that family or friendly creditors will withdraw their claims if the proposal is accepted. The O.R., the debtor and the creditors are entitled to appear at, and take part in, the hearing.

By *The Bankruptcy Act*, 1890 (S. 3, ss. 9), if any facts were proved which would oblige the Court to suspend, refuse, or attach conditions to the debtor's discharge, were he adjudicated a bankrupt, no scheme of composition could be approved which provided for less than 7s. 6d. in the £ on the unsecured debts. There can be no doubt that, in many cases, this was too high a minimum dividend. By *The Bankruptcy and Deeds of Arrangement Act*, 1913 (re-enacted in S. 16 of the Act of 1914), this minimum was reduced to 5s. in the £, a concession which has certainly resulted in an increased number of compositions being proposed and accepted.

If the Court approves the scheme of composition, an Order to that effect is gazetted by the Board of Trade and the R.O. is rescinded.

The instalments provided for by the scheme are paid in a lump sum to the trustee, who distributes them to the creditors. But

A.—UNSECURED CREDITORS.

The names to be arranged in alphabetical order and numbered consecutively, Creditors for £10 and upwards being placed first.

No	Name	Address and Occupation.	Amount of Debt £	s	d	Date when Contracted Month	Year	Consideration.
1	*Abel, Charles*	*16 Soulton Road, London, E C Wholesale Grocer*	*500*	*0*	*0*	*December*	*19..*	*Goods supplied*
2	*Brownlow, Bunton Frederick*	*Copthall Avenue, London, E C*	*300*	*0*	*0*	*January*	*19 .*	*Shares purchased*
3	*Cotton, Paul & Co*	*Chancery Lane, London, W C.*	*56*	*0*	*0*	*November*	*19..*	*Law costs*
4	*Drag, Arthur*	*15 Golden Lane, Shoreditch, E*	*100*	*0*	*0*	*October*	*19 .*	*Money lent*
5	*Elford, Walter*	*Exchange Gardens, Manchester*	*1,000*	*0*	*0*	*July*	*19..*	*Money lent*
6	*Script, Walter*	*1921 Threadneedle Street, London, E C.*	*634*	*0*	*0*	*February*	*19 .*	*Shares purchased*
	A Bill of Exchange for £100 is held by Walter Scrip							
	Amount transferred from List G		*10*	*0*	*0*			*Balance of preferential claims*
			2,600	*0*	*0*			

(Signature) *Miles Further.*
Dated *April 15, 19...*

NOTES —1. Where there is a contra account against the Creditor less than the amount of his claim against the Estate the amount of the Creditor's claim and the amount of the contra account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt," thus —

Total amount of claim £
Less contra account

No such set-off should be included in sheet I.

2. The particulars of any Bills of Exchange and Promissory Notes held by a Creditor should be inserted immediately below the name and address of such creditor.

Contra Accounts The full amount of the claim and the Contra Account must be entered "short" and the balance carried out in the "Amount of Debt" column

Details of *Bills of Exchange* held by creditors should be set out under the name of the creditor (Columns 1 and 2).
Statute-barred debts are not revived by entry in the above list
Deferred Debts (e g. money lent by a wife to her husband) should be entered in this list

B.—CREDITORS FULLY SECURED.

No.	Name of Creditor.	Address and Occupation.	Amount of Debt. £	s	d.	Date when Contracted. Month.	Year.	Consideration	Particulars of Security	Date when given.	Estimated value of Security £	s	d	Estimated Surplus from Security £	s	d
1	*Loamshire Bank, Limited*	*1082 Threadneedle Street, E C. Bankers*	*1,000*	*0*	*0*	*June*	*19 .*	*Money lent*	*1,200 fully paid shares of £1 each in Bouquet d'Or, Ltd*	*June, 19 .*	*1,200*	*0*	*0*	*200*	*0*	*0*

(Signature) *Miles Further.*
Dated *April 15, 19...*

C.—CREDITORS PARTLY SECURED.

No.	Name of Creditor.	Address and Occupation	Amount of Debt			Date when Contracted.		Consideration	Particulars of Security.	Month and Year when given.	Estimated Value of Security			Balance of Debt Unsecured.		
			£	s	d	Month	Year.				£	s	d	£	s	d
1	*Poone, Ronald*	*Eastfields, Ingatesfield, Essex. Gentleman*	*600*	*0*	*0*	*April*	*19..*	*Money lent*	*300 fully paid shares of £1 each in Bouquet d'Or, Ltd.*	*April, 19..*	*300*	*0*	*0*	*300*	*0*	*0*
2	*Clooney, Edward*	*Glenties, Donegal, Ireland Land Owner*	*500*	*0*	*0*	*June*	*19..*	*Money lent*	*200 fully paid shares of £1 each in Bouquet d'Or, Ltd.*	*June, 19..*	*200*	*0*	*0*	*300*	*0*	*0*
		£	*1,100*	*0*	*0*						*£500*	*0*	*0*	*£600*	*0*	*0*

(Signature) *Miles Further.*
Dated *April 15, 19...*

E.—CONTINGENT OR OTHER LIABILITIES.

Full particulars of all Liabilities not otherwise Scheduled to be given here.

No.	Name of Creditor or Claimant.	Address and Occupation.	Amount of Liability or Claim			Date when Liability incurred.		Nature of Liability.
			£	s.	d.	Month.	Year.	
1	*Couronne d'Or, Limited*	*14 London Wall, E.C. Mining Company*	*100*	*0*	*0*	*March*	*19..*	*Shares underwritten*
2	*Sharp, Richard*	*Saxmundham. Merchant*	*50*	*0*	*0*	*June*	*19..*	*Liable under guarantee given for goods supplied to Ralph Baldin.*
			£150	*0*	*0*			

(Signature) *Miles Further.*
Dated *April 15, 19...*

NOTES.—*Uncalled Capital* on shares held by the Debtor should be entered in this list. *Accommodation Bills* accepted by the Debtor for others should also appear here.

G.—PREFERENTIAL CREDITORS FOR RATES, TAXES, AND WAGES.

No	Name of Creditor.	Address and Occupation.	Nature of Claim.	Period during which Claim accrued due	Date when due	Amount of Claim £	s	d.	Amount payable in full. £	s	d	Difference ranking for Dividend (To be carried to List A) £	s.	d
1	*Amhurst, Alfred*	*365 Oxford Mansions, Ilford, E. Book Keeper*	*Salary*	*January 1st to April 14, 19..*	*January 1, 19*	*60*	*0*	*0*	*50*	*0*	*0*	*10*	*0*	*0*
2	*Booker, Ralph*	*485 Camden Road, N W Rate Collector*	*Parochial Rates re Rogers Place*	*September 30th to March 31, 19..*	*October 12, 19 .*	*10*	*0*	*0*	*10*	*0*	*0*			
3	*Dawber, Charles*	*14, Southfield Road, Shenfield Clerk*	*Salary*	*March 1st to April 14, 19..*	*March 1, 19..*	*15*	*0*	*0*	*15*	*0*	*0*			
						£85	*0*	*0*	*£75*	*0*	*0*	*£10*	*0*	*0*

(Signature) *Miles Further.*
Dated *April 15, 19...*

NOTES.—*Commission* due to a traveller should be entered in this list *Articled Clerks* entitled to payment under their articles are also preferential creditors. *Tithes* are not preferential.

H.—PROPERTY.

Full particulars of every description of property in possession and in reversion, as defined by Section 167 of the Act, not included in any other list, are to be set forth in this list.

Full Statement and Nature of Property.	Estimated to Produce. £	s.	d
(a) Cash at Bankers			
(b) Cash in hand	*100*	*0*	*0*
(c) Cash deposited with Solicitor for Costs of Petition	*10*	*0*	*0*
(d) Stock-in-Trade at *Rogers Place* (Cost *£400*)	*15*	*0*	*0*
(e) Machinery at (Cost £)	*200*	*0*	*0*
(f) Trade Fixtures, Fittings, Utensils, etc, at *Rogers Place* (*Cost £262*)			
(g) Farming Stock	*95*	*0*	*0*
(h) Growing Crops and Tenant Right at			
(i) Household Furniture and Effects at *Rogers Place* (*Cost £428*)			
(j) Life Policies (*Surrender value*)	*300*	*0*	*0*
(k) Other Property (state Particulars), viz.—	*65*	*0*	*0*
300 shares of £1 each in the Promise Mine, Limited	*300*	*0*	
95 shares of £1 each in the Rapide Motor Co, Ltd.	*95*	*0*	*0*
	£1,180	*0*	*0*

(Signature) *Miles Further.*
Dated *April 15, 19...*

NOTES.—Property held in trust should not be entered in this list, neither should the personal apparel, bedding or tools (to the value of £20) of the Debtor or his family be entered. All assets, even when valueless, should be set out above. Money paid into Court under a pending action should also appear here.

I.—DEBTS DUE TO THE ESTATE.

No.	Name of Debtor.	Residence and Occupation.	Amount of Debt. Good £	s	d	Doubtful £	s	d	Bad. £	s	d	Folio of Ledger or other Book where Particulars to be found	When Contracted Month	Year	Estimated to produce £	s.	d	Particulars of any Securities held for Debt
1	*Corner, Samuel*	*31 Smiths Street, London, E. Ship Broker*	*350*	*0*	*0*							*S L. 41*	*June*	*19 .*	*350*	*0*	*0*	*None*
2	*Dormer, Price*	*Lower Stanton, Oxford Farmer*				*200*	*0*	*0*				*S.L. 38*	*April*	*19 .*	*100*	*0*	*0*	*Bankrupt*
3	*Brooke, Uriah & Co, Ltd*	*1365 Floodgate Street, E C. Financial Agents*							*100*	*0*	*0*	*S.L. 4*	*January*	*19..*		*Nil*		*Company in liquidation*
			£350	*0*	*0*	*£200*	*0*	*0*	*£100*	*0*	*0*				*£450*	*0*	*0*	

(Signature) *Miles Further.*
Dated *April 15, 19...*

NOTES.—If any Debtor to the Estate is also a Creditor, *but for a less amount than his indebtedness*, the gross amount due to the Estate, and the amount of the Contra Account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt," thus :—

Due to Estate £
Less Contra Account

No such claim should be included in Sheet "A."
NOTES.—*Discounts due* should be entered "short" and deducted in the "Good" column.
Securities held, if any, should be described in the last column. Where a balance is due to the debtor under a *Set-off* the totals should be entered "short" and the difference extended to the money column.

K.—DEFICIENCY (OR SURPLUS) ACCOUNT.

	£	s	d	£	s.	d		£	s	d.	£	s	d
Excess of assets over liabilities on the * 31st day of *March*, 19 (if any) ..				1,230	0	0	Excess of liabilities over assets on the *31st day of *March*, 19 . (if any) . ..						
Net profit (if any) arising from carrying on business from the * day of 19 , to date of Receiving Order, after deducting usual trade expenses . .							Net loss (if any) arising from carrying on business from the * 31st day of *March*, 19 , to date of Receiving Order, after charging against profits the usual trade expenses ..				390	0	0
Income or profit from other sources (if any) since the * 31st day of *March*, 19 . .							Bad debts (if any) as per Schedule I †				200	0	0
Dividends on Investments .				295	0	0	Depreciation of Stock-in-Trade . .	200	0	0			
Gifts from Relations and others . ..							Depreciation of Machinery (*Patents*) . ..	500	0	0			
‖ Deficiency as per statement of affairs				1,445	0	0	Depreciation of Trade Fixtures, Fittings, etc	55	0	0	755	0	0
							Expenses incurred since the * 31st day of *March*, 19 , other than usual trade expenses, viz household and personal expenses of self and ‡ *wife and one child* . ..				890	0	0
							§ Other losses and expenses (if any) . ..						
							Law Costs	35	0	0			
							Stock Exchange losses	200	0	0			
							‖ Surplus as per statement of affairs . .				235	0	0
Total amount to be accounted for ¶				£2,970	0	0	Total amount accounted for ¶ .				£2,970	0	0

(Signature) *Miles Further.*
Dated *April 15, 19...*

* This date should be 12 months before date of Receiving Order, or such other time as Official Receiver may have fixed
† This Schedule must show when debts were contracted.
‡ Add " wife and children " (if any), stating number of latter.
§ Here add particulars of other losses or expenses (if any), including liabilities (if any), for which no consideration received.
‖ Strike out words which do not apply.
¶ These figures should agree

if default is made, or it proves impossible, owing to legal difficulties or otherwise, to carry out the scheme without injustice or undue delay, the Court may annul it and adjudge the debtor bankrupt.

In a scheme of composition the debtor usually :—

(*a*) Assigns all his property to the trustee; and

(*b*) Undertakes to bear all the costs of the proceedings, to pay all the preferential debts in full, and to pay stated instalments, or a stated portion of his annual income, to the trustee until the agreed amount of dividend shall have been received by the unsecured creditors. Certain creditors are nominated to act as a C. of I.

More common, perhaps, is a scheme which provides that the debtor, or his friends, shall furnish sufficient funds to pay preferential claims and costs in full, and also to pay forthwith the dividend of 5s. (or more) to the unsecured creditors. Frequently, family claims are withdrawn in order to enable this to be done. In such cases the debtor's property is re-vested in him.

If no trustee is specially named in the scheme, the O.R. becomes the trustee. The trustee's remuneration must be fixed at the meeting of creditors, and usually takes the form of a percentage upon the composition paid.

The reason why S. 16 requires a debtor to lodge the proposal for a composition within four days after submitting the Statement of Affairs is to enable the first meeting of creditors to consider the scheme. But a proposal for composition, or scheme of arrangement, may be made at any time after adjudication, and, if the proposal or scheme is accepted (again by a three-fourths majority of all creditors who have proved, and by the Court), the bankruptcy may be annulled. It is often found more practicable to do this at a stage later than the first meeting, for then the position of the estate has been ascertained and the debtor has had time to obtain assistance from his friends.

Adjudication.—If no scheme of composition or other proposal is put before the creditors, they may decide by ordinary resolution at the first meeting, or at any adjournment thereof, that the debtor shall be adjudicated bankrupt. If no meeting is held, or no resolution passed, or if the composition is not approved within fourteen days of the conclusion of the public examination of the debtor, or such further time as may be allowed, the Court will adjudge him bankrupt. In the case of a firm, the adjudication is made against each partner individually, and not against the partnership.

Notice of adjudication is given by the Registrar to the O.R. and the Board of Trade. The Order is also advertised in the local paper and in the *Gazette*.

Effect of Adjudication.—The effect of an adjudication is that the property of the debtor, hitherto protected by the R.O., now vests in the trustee, and becomes divisible amongst the creditors. This is not so in a company winding up, for after a resolution to wind up a company has been passed, its property remains vested

in the company. Its real estate must be conveyed by the company by deed sealed with the company's seal, although the seal must be affixed by direction of the liquidator. In bankruptcy, upon the appointment of a trustee the bankrupt is divested of his property.

Date of Commencement of Bankruptcy.—The bankruptcy is held to have commenced at the date of the act of bankruptcy upon which the petition was founded, or any previous act which the trustee can prove to have been committed within three months before the presentation of the petition. Thus, if a debtor commits an act of bankruptcy on June 1st and another on July 3rd, and a petition is presented against him on August 31st upon which he is adjudicated bankrupt, the bankruptcy will be deemed to have commenced on June 1st (S. 37), and, it would appear, from the very moment of time when the act was committed (*re Bumpus*, [1908] 2 K.B. 330). This "relation back" of the bankruptcy to the first provable act of bankruptcy is often of the greatest importance to the trustee in following the debtor's property.

The possibility always exists that transactions with the debtor within the three months of the date of the petition may have been entered into after the creditor had knowledge that an available act of bankruptcy had been committed.

The student is often perplexed by the effect of this doctrine of relation back in transactions by or with persons who are subsequently made bankrupt. The Act envisages the difficulties that may arise in this connection, and deals with them in the two somewhat contradictory sections 45 and 46. S. 45 protects :—

(*a*) Any payment by the bankrupt to any of his creditors.

(*b*) Any payment or delivery to the bankrupt.

(*c*) Any conveyance or assignment by the bankrupt for valuable consideration.

(*d*) Any contract, dealing, or transaction by or with the bankrupt for valuable consideration.

Provided that any of these transactions takes place (1) *before the date of the R.O.*, and (2) *the person (other than the debtor) had, at the time, no notice that the bankrupt had committed an available act of bankruptcy.*

The R.O. is deemed to have been made on the first moment of the day of its date, so if the R O. be made at 3 p.m., any transaction mentioned above which takes place at, say, 9 a.m. of the same day is unprotected. It is to be noted that the transaction must be fully completed. Thus, if the consideration for a contract entered into prior to the date of the R.O., and without notice of an available act of bankruptcy, is paid over to the bankrupt after the date of the R.O., the person paying may be compelled to pay again to the trustee

S. 46 enacts that a payment of money, or delivery of property, to a person subsequently adjudged bankrupt, or to a person claiming by assignment from him, shall, notwithstanding anything in this Act, be a good discharge to the person paying the money or delivering the property, if the payment or delivery is made *before the actual date on which the R.O. is made and without notice*

of the presentation of a bankruptcy petition, and is either pursuant to the ordinary course of business or otherwise bona fide.

It is clear from the above sections, both of which deal with any payment or delivery to the bankrupt, that S. 46 enlarges the protection afforded by S. 45, since one may have notice of an available act of bankruptcy and yet be without notice of the presentation of a bankruptcy petition. These sections are of special interest to bankers. Some authorities hold that a banker who pays a cheque drawn upon him in favour of a *third person* by a customer subsequently adjudicated bankrupt is protected, if he paid the cheque before the date of the R.O. and had no notice of the presentation of a bankruptcy petition (S. 46) But that eminent authority on banking law, Sir John Paget, K.C., is of a contrary opinion. A banker is protected if, before the date of the R.O., and without notice of the presentation of a bankruptcy petition, he pays cheques drawn by a bankrupt in *his own favour*, since that is payment to the bankrupt himself, and is specifically exempted by S 46. A banker is also protected if he does not know that his customer is an undischarged bankrupt, and his dealings with him are confined to property after acquired by the bankrupt. And also if, having discovered that his customer is an undischarged bankrupt, he has given notice to the B. of T., and one month has elapsed from the date of the notice, and he has received no instructions from the trustee, for all subsequent transactions in respect of after acquired property (S. 47, ss. 2).

Where any money or property of a bankrupt has, on or after the date of the R.O., but before notice thereof has been gazetted, been paid by a person having possession of it (e.g. a banker) to some other person, such payment or transfer being void as against the Trustee, then if the person making the payment or transfer proves that when it was made he had not had notice of the R.O., the Trustee's right of recovery against him shall not be enforced, except where and in so far as the Court is satisfied that it is not reasonably practicable for the Trustee to recover in respect of the money or property, or of some part thereof, from the person to whom it was paid or transferred (S. 4, Act of 1926).

Annulment of Adjudication Order.—An adjudication order may be annulled if (1) the Court approves a scheme of composition (S. 21); (2) the Court is satisfied that the debtor ought not to have been made bankrupt (S. 29); (3) the debtor pays up in full (S. 29) and no offences against the bankruptcy laws are proved against him When a bankruptcy is annulled, the debtor's property is vested in such person as the Court may appoint, or, when no appointment is made, reverts to the debtor

THE TRUSTEE.

After an adjudication order has been made, the O R. becomes the trustee temporarily, unless some other person is appointed. The creditors may resolve by ordinary resolution to appoint whomsoever they like as trustee, or they may leave the appointment to the C. of I. (S. 19). If the creditors do not nominate a trustee within four weeks of adjudication, or within seven days after the creditors have refused a scheme of composition, or the Court has refused to sanction such a scheme, the O.R. must report

the fact to the B. of T., and the Board will then appoint a trustee. But the creditors or the C. of I. can at any subsequent time appoint their own trustee to take the place of the Board's nominee. The O.R. can only act as trustee (*a*) in small bankruptcies (assets not exceeding £300); (*b*) during vacancies in the trusteeship of non-summary bankruptcy proceedings; (*c*) for the estate of a deceased insolvent; (*d*) if he is appointed by the B. of T. in the absence of an appointment by the creditors or the C. of I. (S. 19). The B. of T. may object to the appointment of any particular trustee on the grounds that his connection with the debtor or any creditor, or his personal interest in the debtor's estate, would conflict with his duty to act impartially; or if, by reason of misconduct, he has been removed from a former trusteeship; or because his appointment was irregular. Where a certificate of appointment is refused to a trustee designate, the creditors can, by ordinary resolution, compel the B. of T. to state a case for determination by the Court (S. 19).

If a non-official trustee is appointed, his appointment must be advertised in the *Gazette* and in a local paper. He must give security in the manner prescribed by the B. of T. (Rule 353). With the permission of the creditors, the premium on the guarantee bond may be charged against the estate, a concession unobtainable in winding-up proceedings The trustee's authority begins as from the date of the certificate, and the certificate is conclusive proof of his appointment.

Taking Possession of the Property.—As soon as the trustee obtains his certificate of appointment, he proceeds to take possession of the debtor's property. The only property exempted is:—

(*a*) Trade tools, wearing apparel and bedding to a value not exceeding £20 in all.

(*b*) Property held in trust, if it can be identified (S. 38). In addition to the above:—

(*c*) Property of the debtor the ownership of which, in the event of the debtor's bankruptcy, passes to others.

[*Note.*—A man may not settle his own property upon himself with a proviso that in the event of his bankruptcy the property shall pass to others Such a settlement is void.]

(*d*) The benefit of contracts which can only be carried out by the personal skill of the debtor, e g. contracts entered into by a music-hall artist, provided that such personal earnings are not more than reasonably sufficient for the maintenance of himself and his family.

Further:—

(*e*) In the case of a beneficed clergyman (S. 50), or of an officer, or civil servant (S. 51, ss. 1), so much of the stipend as the bishop, or chief officer of the department, as the case may be, shall reserve to the debtor.

(*f*) In the case of a bankrupt enjoying a fixed salary, or one entitled to a pension or to half-pay, such part of his income as the Court may permit him to retain (S. 51, ss. 2).

Where land forming part of the estate is registered under the *Land Registration Act*, 1925, the trustee should have his name registered as the proprietor for the time being under S. 42 (1) of that Act.

Property Divisible.—The property of the bankrupt divisible amongst the creditors includes not only such property, or rights in, or over, or in respect of, property as may belong to or be vested in him at the commencement of the bankruptcy, but all property, or rights in, or over, or in respect of, property which he acquires, or which may devolve upon him before his discharge (S 38 [*a* and *b*]). It also includes all goods being, at the commencement of the bankruptcy, in the possession, order or disposition of the bankrupt, in his trade or business, by the consent and permission of the true owner, under such circumstances that he is the reputed owner thereof; provided that things in action other than debts due or growing due to the bankrupt in the course of his trade or business shall not be deemed goods within the meaning of this section (S. 38 [*c*])

S. 38 (*a* and *b*) deals with two classes of property, viz (*a*) property, and rights in property, of the bankrupt at the commencement of the bankruptcy; and (*b*) property, and rights in property, acquired by the bankrupt between the commencement of his bankruptcy and his discharge Class (*b*) is conveniently referred to as "After acquired property."

S. 38 (*c*) deals with a special class of property, viz goods in the possession, order or disposition of the bankrupt with the consent and permission of the true owner under such circumstances that he is the reputed owner.

After Acquired Property.—By S. 47 (1 and 2) all transactions by a bankrupt with any person dealing with him *bona fide* and for value, whether in respect of real, or of personal property acquired by the bankrupt after his adjudication, shall, if completed before any intervention by the trustee, be valid against the trustee. The receipt of any money, security or negotiable instrument from, or by the order or direction of, a bankrupt by his banker, and any payment and any delivery of any security or negotiable instrument made to, or by the order or direction of, a bankrupt by his banker, shall be deemed a transaction with the banker for value. Where a banker has ascertained that a person having an account with him is an undischarged bankrupt, then, unless the banker is satisfied that the account is on behalf of some other person, he must immediately inform the B. of T. of the existence of the account, and he shall not then make any payment out of it except by order of the Court or on instructions from the trustee, unless by the expiration of one month from the date of giving the information no instructions have been received from the trustee.

[*Note.*—This section protects all *bona-fide* transactions for value with a bankrupt prior to the intervention of the trustee, both in respect of real (i.e. freehold) property and personal property. We have already seen (p. 613) that *bona-fide* transactions entered into with a debtor prior to the date of the R.O. are protected if the creditor is without knowledge that the debtor has committed an act of bankruptcy, or has had a petition presented against him (SS. 45 and 46). Nothing, however, is said about *bona-fide* transactions for value in respect of property acquired between the date of the R.O. and the adjudication, and such transactions would seem to be unprotected, except in so far as they come within S. 4 of the Act of 1926 (see p. 614)].

Order and Disposition.—Careful reading of S. 38 [*c*] shows that the trustee is only entitled to the goods therein described if:—

(1) The goods are in the possession, order, or disposition of the bankrupt at the commencement of the bankruptcy, and are goods in his trade or business, and

(2) The goods are in possession of the bankrupt by the consent and permission of the true owner of them, under such circumstances that he is the reputed owner.

[*Note.*—" Goods " comprise all chattels except fixtures attached to the freehold. A thing in action, or a *chose in action*, is a right which a person can enforce by action at law, and is a different kind of property from goods or chattels, which are *choses in possession*. Choses in action comprise, *inter alia*, bills of exchange, promissory notes, stocks and shares, debentures, book debts, etc. All these are excluded, except the last mentioned, viz. debts due and accruing due in the course of the bankrupt's trade or business. The goods must ostensibly belong to the bankrupt, but in fact they must be the property of someone else. This is not to say that all goods in a bankrupt's possession, order or disposition may be claimed by the trustee. Reputation of ownership may be excluded, as, e.g., where goods are left in the bankrupt's possession in accordance with some well-known trade custom. A purchaser of hops who allows his purchase to remain in the warehouse of the seller runs no risk of having his goods taken over by the trustee in the event of the seller's bankruptcy, because in so doing he is simply following an established custom of the hop trade. Books sent out " on sale or return " by a publisher to a bookseller do not pass to the trustee if the bookseller is adjudged bankrupt, because it is customary in that trade to send out books " on sale or return." Machinery held under a hire-purchase agreement as in the printing trade, furniture similarly held by an hotel-keeper, etc., are not goods in the possession, order, or disposition of the holder held in such circumstances that he is the reputed owner thereof. The object of this " order and disposition " section is to prevent unscrupulous debtors obtaining undue credit by making a display of other people's goods and so presenting to the world a fictitious air of financial stability]

Bills of Sale.—By the *Bills of Sale Act*, 1878, personal chattels (this expression includes trade machinery as defined in S. 5 of the Act, but not chattel interests in real estate) assigned under an *absolute* bill of sale, provided the bill of sale be duly registered, do not fall within the order and disposition clause of the Act of 1914, and therefore the trustee has no title to such chattels.

The grantee of a *conditional* bill of sale, i.e. a bill of sale over personal chattels, given by way of security for the payment of money, provided the bill of sale be made in accordance with the Act and duly registered (see *Bills of Sale Act*, 1882, SS. 8–12) is a fully secured creditor so long as he acts diligently in seizing the chattels scheduled in the bill of sale, and provided the proceeds of sale are sufficient to discharge the debt.

Discovery of Debtor's Property.—On the application of the O.R or the trustee, the Court may at any time after the R.O. has been made summon before it the debtor, or his wife, or any

person known or suspected to have in his possession any of the estate or effects of the debtor, or any person deemed capable of giving information respecting the debtor, his dealings, or property, and require them to produce any documents relating to the debtor, his dealings or property, and, should they fail to attend the Court, have them apprehended by warrant. If any person so brought before the Court should be found to be indebted to the debtor, or to be in possession of any of the debtor's property, the Court may, on the application of the O.R. or trustee, require such person to pay the debt or deliver up the property (S. 25).

The Court may, by warrant, direct that any property of a debtor or bankrupt shall be seized, and in order that this can be done that any building or place of the debtor or bankrupt shall be broken open. The Court may grant a search warrant to any constable or officer of the Court if there is reason to believe that property of the debtor is concealed in any building or place not belonging to him (S. 49).

After the issue of a bankruptcy notice, or the filing of a petition, the Court may order the arrest of a debtor, and the seizure of his books and papers, money and other property, if he has absconded, or there is reason to believe that he will abscond, for the purpose of avoiding, embarrassing, or delaying proceedings against him. He may also be arrested if, after presentation of the petition, there is reason to believe that he has removed, concealed or destroyed his property or papers, or that he is about to do so; or if, after service of a bankruptcy petition on him, he removes any of his goods above £5 in value without leave of the O R. or the trustee; or if he fails without good cause to attend the Court for examination (S. 23).

Disclaimer.—When the trustee is satisfied that he has knowledge of the whole of the bankrupt's estate, he must consider whether it is advisable to disclaim any part of it. If any of the debtor's property is burdened with onerous covenants, e.g. land of any tenure; or entails the expenditure of money, e.g. stocks or shares with liabilities for future calls; or if the property is unsaleable or not readily saleable, because it binds the possessor to the performance of any onerous act or the payment of money; or, in the case of contracts entered into by the debtor, if they are likely to prove unprofitable, the trustee has the right, notwithstanding that he may have taken possession of, or tried to sell, or exercised any act of ownership over the property, to disclaim the property. If he exercises his right of disclaimer he must do so in writing signed by him, and within twelve months after the first appointment of a trustee [i.e. an appointment by the creditors, or the C of I., or the B. of T.], or within twelve months from the date when he first had knowledge of the existence of the property, or within such extended period as the Court may allow (S. 54 [1]).

The disclaimer determines, as from the date thereof, the debtor's interest in the property or contract, and discharges the trustee from all personal liability in respect thereof as from the date when

the subject matter of the disclaimer vested in him. But it does not affect the rights or liabilities of third parties (S. 54 [2]).

A trustee is not entitled to disclaim a lease without leave of the Court, and before granting leave, and as a condition of the grant, the Court may require such notices to be sent to persons interested, and impose such terms and make such orders as the Court thinks proper (S. 54 [3]). But, by Rule 276, a lease may be disclaimed without leave of the Court in any of the following cases :—

(i) Where the bankrupt has not sublet the premises or any part thereof, or created a mortgage or charge on them, and

(*a*) The rent and real value of the property are less than £20 per annum ; or

(*b*) The estate is being wound up summarily under S. 129 ; or

(*c*) The trustee serves the lessor with notice of his intention to disclaim, and the lessor does not within seven days of receipt give notice to the trustee requiring the matter to be brought before the Court.

(ii) Where the bankrupt has sublet the premises or created a mortgage or charge on them, and the trustee gives the lessor, the sub-lessee, or the mortgagees notice of his intention to disclaim, and all or any of them do not within fourteen days of receipt of the notice require the matter to be brought before the Court.

If a person interested in any of the debtor's property requests the trustee in writing to decide whether he will disclaim the property or not, then the trustee has twenty-eight days after receipt of the request, or such extended time as the Court may allow, to make his decision. If the trustee declines or neglects to give notice of disclaimer within the period allowed, his power to disclaim the property is gone. The same is true in respect of a contract (S. 54 [4]).

The Court may, on the application of any person who is, as against the trustee, entitled to the benefit or subject to the burden of a contract made with the bankrupt, make an order rescinding the contract on such terms of payment to or by the applicant by way of damages for non-performance of the contract as the Court may consider equitable. Any person to whom such damages are payable may prove for them in the bankruptcy (S. 54 [5]).

If, owing to a vacancy in the trusteeship, the O.R. becomes the trustee, he may disclaim any property which the trustee could have, but has not, disclaimed, provided he does so within twelve months after he has become trustee in these circumstances, or has become aware of the existence of the property, whichever may be the longer (S. 54, [7]).

Upon disclaimer by the trustee, the Court may make an order vesting the property disclaimed in any person who claims an interest in it if he applies to the Court. In the case of leasehold

property, where a person claims as sub-lessee or as mortgagee by demise, the vesting order will only be made on the terms that the applicant shall take the lease subject to the same obligations as the bankrupt was under at the date of the bankruptcy petition, or, if the Court thinks fit, to the same obligations as if the lease had been assigned to the applicant at that date; and in either case the applicant is not to be liable to obligations affecting other property contained in the lease but not comprised in the vesting order (S. 54 [6]). If no person interested applies, then the Court may vest the property in anyone liable alone or jointly with the bankrupt to perform the covenants in the lease, but freed from any interests created by the bankrupt.

Any person injured by the operation of disclaimer shall be deemed to be a creditor of the bankrupt to the extent of the injury, and may prove against the estate accordingly (S. 54 [8]) If such a lease is registered under the *Land Registration Act*, 1925, the order must direct the alteration of the register (S. 42 [2], *Land Registration Act*, 1925).

Voluntary Settlements.—The term "settlement" here includes any conveyance or transfer of property. A voluntary settlement made by a person who subsequently becomes bankrupt may be (*a*) unimpeachable, or (*b*) voidable by the trustee.

The following settlements cannot be impugned:—

(*a*) Settlement made before and in consideration of marriage.

(*b*) Settlement made in favour of a purchaser or incumbrancer in good faith and for valuable consideration.

(*c*) Settlement madė on or for the wife or children of the settlor of property which has accrued to the settlor after marriage in right of his wife.

(*d*) Where more than ten years have elapsed between the date of the settlement and the commencement of the bankruptcy.

A settlement made more than two years, but less than ten years, before commencement of the bankruptcy is voidable by the trustee unless it can be shown that at the time of making it:—

(*a*) The settlor was able to pay all his debts without the aid of the settled property; and

(*b*) The interest of the settlor in the property had passed to the trustees or to the beneficiaries under the settlement.

A settlement made within two years of the settlor's bankruptcy is voidable by the trustee (S. 42 [1]).

[*Note.*—Settlements avoided under the above subsection are avoided only to the extent that may be necessary to enable the trustee to pay the bankrupt's debts and the costs of the bankruptcy. The settlements are perfectly legal in themselves, and that being so, the trustee cannot dispossess of their rights subsequent mortgagees and incumbrancers of settled property, provided such persons acted *bona fide* and without knowledge that an available act of bankruptcy had been committed. A purchaser of settled property, provided he acquired the property *bona fide* before the commencement of the settlor's bankruptcy, or if he acquired it after commencement, provided he did so without knowledge that the settlor had committed an act of bankruptcy, has a good title

as against the trustee. It is not necessary that he should have paid actual money for the property. Valuable consideration, e.g the abandonment of a claim against the seller, confers an equally good title]

Any covenant or contract made by any person (hereinafter called the settlor) in consideration of marriage for the future payment of money for the benefit of wife or husband or children, or for the future settlement of property on wife or husband or children, is voidable by the trustee if at the date of the marriage the settlor had no estate or interest in the money or property, unless the covenant or contract has been executed before the commencement of the bankruptcy. Payments made or property transferred in pursuance of such a covenant or contract are also voidable by the trustee, unless :—

(a) The payment or transfer was made more than two years before the commencement of the bankruptcy; or

(b) The settlor was able at the time of payment or transfer to discharge all his debts without the aid of the money paid or property transferred; or

(c) The payment or transfer was made in pursuance of a covenant or contract to pay money or transfer property expected to come to the settlor on the death of a person named in the covenant or contract, and was made within three months after the money or property came into the settlor's possession.

Where a covenant, or contract, or payment, or transfer thereunder is avoided by the trustee, the persons entitled under such covenant or contract, or those to whom a payment or transfer has been made, can claim for dividend in the bankruptcy. But their claims are postponed till all other creditors for valuable consideration in money or money's worth have been satisfied (S. 42 [2 and 3]).

Payments of premiums to keep up a policy of life assurance voluntarily settled upon husband, or wife, or children do not come within the scope of the above sub-sections.

Public Examination.—An early duty of the trustee is, if the C. of I. thinks it advisable, to take part in the public examination of the debtor. This public examination is the special characteristic of bankruptcy proceedings, and distinguishes them from all private methods of arrangement with creditors. The examination must take place in open Court, on a day appointed by the Court, and any creditor who has proved his debt may question the bankrupt. Questions relating to past trading are generally left in the main to the O.R., who begins the examination. The trustee is more concerned with discovery of the debtor's property and realisation of the assets. The trustee may question the debtor, but as third persons are often affected, and it is undesirable to disclose the steps which he may intend to take, he frequently prefers to question the debtor privately. The public examination is held as soon as convenient after the time appointed for the submission of the Statement of Affairs. Notes are taken of the

public examination as the Court may direct, and read over to and signed by the debtor, but such notes may not be used as evidence against third parties The regulations with regard to the public examination are laid down by S. 15 and Rules 191–199. Public examination can be dispensed with only in the following cases :—

(a) Where joint debtors propose a scheme of arrangement, the Court may excuse one of them if he is prevented from attending by illness or absence abroad (S. 16 [7]).

(b) Where the debtor is a lunatic, or by reason of mental or physical disability cannot attend (S. 15 [10]).

(c) In exceptional case, where, after adjudication, the Court annuls the bankruptcy.

Proof of Debts.—The proving of debts in bankruptcy proceedings is regulated by the Second Schedule to the Act of 1914 and Rules 250–263. All creditors must prove their debts as soon as possible after the making of the R.O. As explained in connection with liquidation proceedings (see p. 423), a proof of debt takes the form of an affidavit verifying the claim, made either by the creditor or his authorised agent, usually an employee of the creditor. If the latter, he must state his authority and means of knowledge Proofs for claims exceeding £2 in value, other than for workers' wages or Crown debts, must bear a 1s 6d. stamp. A single proof may be made by the debtor, or foreman or other person on behalf of the workmen, to cover all wages accrued. Affidavits in proof may be sworn before the O.R. or the trustee.

All debts and liabilities, present or future, certain or contingent, to which the debtor is subject at the date of the R.O , or to which he may become subject before his discharge by reason of any obligation incurred before the date of the R.O , are provable in bankruptcy. The following are not provable (S. 30) :—

(a) Demands in the nature of unliquidated damages arising otherwise than by reason of contract, promise, or breach of trust.

(b) Debts or liabilities contracted by the debtor with any person after that person has had notice of an available act of bankrupty.

(c) Debts or liabilities the value of which, in the opinion of the Court, are incapable of being fairly estimated.

The trustee may value any debt or liability which by reason of its being subject to a contingency, or for any other reason, does not bear a certain value. Any persons aggrieved by the trustee's estimate may appeal to the Court.

The value of an annuity payable by the bankrupt throughout the life of the annuitant can be estimated for proof. Future payments of alimony are not provable, since a debtor remains liable to pay alimony notwithstanding his bankruptcy. A wife can prove in the bankruptcy of her husband under a deed of separation. Where there have been mutual credits, mutual debts,

or other mutual dealings, an account is taken, and the balance due from the debtor can be proved for.

Proofs may be sent by pre-paid post, and should include, or refer to, a statement of account and any documents in support of the proof. All trade discounts must be deducted, and the net amount be proved for ; but a creditor need not deduct any trade discount, not exceeding 5 %, which he may have agreed to allow for cash (Bankruptcy Act, 1914, Schedule II [8]).

Where a debt is payable with interest, the rate for dividend purposes must not exceed 5 %; the creditors can only receive the excess over this rate after other debts have been paid in full (S. 66 [1]). As to debts owing to moneylenders, see S. 9, *Moneylenders Act*, 1927.

Where interest is not agreed upon and the debt was overdue at the date of the R.O., the creditor may prove for interest at the rate of 4 %. This interest will run to the date of the R.O. from the time when the debt was payable if it was payable under a written instrument at a certain time ; if not, then from the date of notice to the debtor that interest will be charged from that date until the time of payment (Schedule II [21]).

Debts payable at a future time may be proved for subject to 5 % per annum rebate (Schedule II [22]).

If the O.R. is acting, the proof should be sent to him ; if a trustee other than the O.R. has been appointed, then to the trustee. It is usual to stamp the proof with the hour and day of its receipt. All proofs must be carefully examined and, if necessary, vouchers be demanded to substantiate them, even in the case of a judgment debt. A judgment is *prima facie* evidence of a debt, but circumstances may require that the consideration for the debt should be investigated. Proofs must be admitted or rejected within twenty-eight days of lodgment, or, if the trustee has given notice of his intention to declare a dividend, within fourteen days (Rule 260). If the O.R. is acting as trustee, the time limit is fourteen days from the latest date specified in the notice of his intention to declare a dividend (Rule 259).

In cases where the O.R. is acting, and after a final dividend has been declared, all proofs must be sent to the Registrar, and a list must be filed with them, showing the O.R.'s decision in each case, whether the proof was admitted, or partially or totally rejected. If a non-official trustee has been appointed, a similar certified list must be filed on the first day of each month, together with the proofs of such debts as have been admitted or rejected.

By S. 160, any creditor who in his proof of debt makes a false or fraudulent claim is guilty of a misdemeanour, and, by S. 154, the bankrupt is also guilty of a misdemeanour if, knowing that a false claim has been proven, he does not within one month notify the trustee thereof.

The regulations with reference to proof of debt described at p. 423 apply also to bankruptcy proceedings. The prescribed general form of proof of debt is shown at pp. 420–2. A special form is used for workmen's wages. Any creditor who has proved

his debt may inspect the proof of any other creditor and the file of the proceedings.

Debts entitled to priority of payment have been dealt with at p. 441, and debts due to secured creditors at p. 442. There are certain deferred debts which do not rank for payment until the ordinary unsecured creditors have been satisfied. Some of these have been mentioned in other parts of this book, but they may be recapitulated here :—

(*a*) Money lent under a written contract with a person or firm, in consideration of a share of profits in lieu of interest, or at a rate of interest dependent upon profits (*Partnership Act*, 1890, SS. 2 and 3).

(*b*) Money or property lent by a wife to her husband for trade or business purposes (*Bankruptcy Act*, 1914, S. 36 [2]). But where a wife has lent money to her husband for private purposes she can prove in competition with ordinary creditors.

(*c*) Money or property lent by a husband to his wife for the purpose of her trade or business (*Bankruptcy Act*, 1914, S 36 [1]).

(*d*) Money or property contributed by partners under a limited partnership agreement are postponed to the claims of the ordinary creditors of the partnership (*Limited Partnership* (*Winding Up*) *Rules*, 1909, 4 [4]).

(*e*) An annuity payable out of profits as purchase consideration for the sale of the goodwill of a business (*Partnership Act*, 1890, S. 3).

(*f*) Claims of trustees of a marriage settlement in which the settlor covenants for future payments of money, or future settlements of property in which he had, at the time of making the settlement, no interest (*Bankruptcy Act*, 1914, S 42 [2]).

Powers of Trustee.—By S. 55 the trustee has power :—

(1) To sell all or any part of the bankrupt's property (including the goodwill of the business), and the book debts due, or growing due, to the bankrupt, by auction or private contract.

[*Note.*—He may not sell to himself or to any member of the C. of I. without leave of the Court In most cases the C. of I. will be composed of business experts, and the trustee will have the benefit of their advice before selling]

(2) Give receipts for money received by him.

(3) Prove, rank, claim, and draw a dividend in respect of any debt due to the bankrupt.

(4) Execute powers of attorney, deeds and other instruments.

(5) Deal with any entailed property to which the bankrupt is beneficially entitled in the same manner as the bankrupt might have dealt with it ; and

(6) Exercise generally all the powers vested by statute in the trustee.

(7) Apply to the Court for direction in case of need.

By S. 56, the trustee may, with the permission of the C. of I., do all or any of the following things.—

(1) Carry on the bankrupt's business so far as it may be necessary for the beneficial winding up of the estate.

(2) Bring or defend any action relating to the property of the bankrupt.

(3) Employ a solicitor or other agent to take any proceedings or do any business which may be sanctioned by the C. of I.

(4) Sell property of the bankrupt for money payable at a future time subject to such stipulations as to security or otherwise as the C. of I. think fit.

(5) Mortgage or pledge the bankrupt's property for the purpose of raising money for the payment of his debts.

(6) Submit disputes to arbitration, and compromise debts, claims and liabilities with any person who may have incurred any liability to the bankrupt.

(7) Compromise with creditors.

(8) Compromise any claim arising out of or incidental to the bankrupt's property made or capable of being made against the trustee, or by the trustee against any other person.

(9) Divide amongst the creditors according to its estimated value any property which cannot be readily or advantageously sold.

(10) Appoint the bankrupt to superintend the property, or to carry on the business for the benefit of the creditors (S. 57), and make an allowance to him for the support of himself and his family, or in consideration of his services in winding up the estate as he may think just. But such allowance may be reduced by the Court (S. 58).

(11) The Committee of Inspection may also authorise the trustee to have an account at a local bank instead of at the Bank of England, if desirable for the purpose of the debtor's business or of obtaining advances or because of the probable amount of the cash balance, or otherwise for the advantage of creditors (S. 89).

Cheques on a local bank must be "order" cheques, signed by the trustee and countersigned by a member of the Committee and one other appointed by the Committee or creditors; and if there is no Committee, then as the B. of T. may appoint (Rule 342).

The sanction of the C. of I. must be obtained for each specific act. The permission given by the sections is not a general permission to do all or any of the things therein mentioned.

Committee of Inspection.—The duties and powers of a C. of I. in bankruptcy proceedings are practically identical with those in liquidation proceedings, except that in the former case there are, of course, no contributories, and the appointment of the Committee is therefore confined to creditors or the holders of general proxies from creditors. If the Committee is not appointed

at the first meeting, it may be appointed at any subsequent meeting. No creditor can be a member of the Committee unless he has proved his debt. The Committee must consist of not less than three nor more than five members (S. 20). It must meet at such times as the Committee appoints, and, failing appointment, at least once a month, unless the Committee decide otherwise. The trustee, or any member of the Committee, may call a meeting when it appears to be necessary. If a member becomes bankrupt, or is absent without leave for five consecutive meetings, he ceases to be a member. A member may resign by notice in writing given to the trustee; and he may be removed by ordinary resolution of the Committee at any meeting of which seven days' notice has been given, stating the object of the meeting. Vacancies are filled by the creditors in general meeting, called together for that purpose by the trustee. A majority of the members must be present to render the acts of the Committee valid, but if the number of members falls below two, then the O.R. takes the place of the Committee. The trustee must at all times have regard to the instructions of the Committee, and certain acts, as set out above, can only be done with the Committee's sanction. The wishes of the creditors, as expressed in general meeting, always override those of the Committee. The members of the Committee are entitled to their out-of-pocket expenses (Rule 117), but not to be remunerated for their services, unless such remuneration is sanctioned by the Court; and they must not make any profit, direct or indirect, out of the estate, or purchase any part of it without the Court's sanction (Rule 347). If no C of I. is appointed, the B. of T. discharges the functions of that body, on the application of the trustee.

Special Manager.—Under S. 10 [1], the O.R. may, upon application in the prescribed form by the creditors, appoint a special manager, if he is satisfied that the nature of the debtor's business renders such a course desirable. The special manager acts until the trustee is appointed, and exercises such powers as the O.R. may grant Security must be given by the special manager (S. 10 [2]), and his remuneration is fixed by the creditors in general meeting (S. 10 [3]), or by the B of T. With the sanction of the O.R., the special manager may raise loans in the interest of the estate (S. 74 [1] [*b*]). He must pay all receipts to the O.R , and render to him proper accounts verified by affidavit (Rule 352). The O.R., if he approves the accounts, incorporates their totals in his own.

Books and Accounts.

Throughout the proceedings the trustee must keep proper accounts (S. 86). Prior to the appointment of the trustee, the O.R., under Rules 360 and 361, will have started the Record Book and Cash Book, and, if the business is continued, the Trading Account. These books will be handed over to the trustee upon payment of the expenses and costs incurred by the O.R. The books may be inspected at any time by the creditors, who may

also obtain copies of the trustee's accounts on payment of 3d. per folio of 72 words.

The Record Book.—This has already been described in connection with liquidation proceedings, and the purpose of the book is practically the same in bankruptcy proceedings. Proper minutes of all resolutions passed by the creditors or the C. of I. must be recorded and signed in due course by the chairman. Copies of all notices, and similar documents, together with a concise record of the proceedings and the authority for the various transactions which have been carried out, should also appear, such, e.g., as the authority for employing a solicitor; for allowances * made to the debtor under S. 58; for the trustee's remuneration; for the permission (if granted to the trustee) to charge the premiums on the fidelity bond against the estate. The last-mentioned authority must be specially granted by the creditors or the C. of I.

Cash Book.—All receipts and payments must be entered in this book, the prescribed form of which is shown facing this page. It will be noted that the Receipts side of this Cash Book is similar to that employed in liquidation proceedings, except that there is no provision for calls. Some few differences will be noted on the payments side of the book, arising chiefly from the necessary differences in administration. The Cash Book must be audited and certified by the C. of I. at least once every three months (Rule 363). The prescribed form of certificate is given below.

(Audit Certificate.)

THE BANKRUPTCY ACTS, 1883 TO 1914.

IN THE *HIGH* COURT OF *JUSTICE*.
IN BANKRUPTCY.

No. *399* of *19*...

Re MILES FURTHER, a Bankrupt.

WE, the undersigned, Members of the Committee of Inspection in the matter of *Miles Further*, a Bankrupt, hereby certify that we have examined the foregoing account with the vouchers, and that to the best of our knowledge and belief the said account contains a full, true and complete account of the Trustee's receipts and payments on account of the estate.

Dated this *31st* day of *May*, *19*...

Robert Right
Leopold Left
Charles Centre } Committee of Inspection.

Every six months subsequent to the R.O., the Record Book and a complete copy of the Cash Book, in duplicate, must be forwarded

* Allowances made to a debtor must be in money unless otherwise determined by special resolution of the creditors. Such allowances may be reduced by the Court (Rule 370). Allowances should only be granted to the debtor for special services, e.g. assisting in the management of the business.

to the Board of Trade, accompanied by the trustee's affidavit of verification,* and by the necessary vouchers, allocaturs for taxed costs, "marked" copies of auctioneer's catalogues, and copies of the audit certificates of the C. of I. If a local bank account has been sanctioned, the pass-book must also be forwarded. together with a certificate from the bank manager for the balance, The above-named books and papers must be accompanied by an order on the "Bankruptcy Estates Account" for the amount of the Board of Trade audit fee on the assets realised, based on the official scale. A report known as Form "No. Tr. 13" must also be forwarded, showing the position of the estate at the date of audit (see below). A similar audit also takes place upon the

Audit No. *1.*
Reg. No. *399 of 19...*

Re MILES FURTHER.

REPORT OF TRUSTEE ON POSITION OF ESTATE AT THE *FIRST* AUDIT, DUE *OCTOBER 14, 19...*

Assets as per Statement	Assets as per Statement			Realised			Estimated Value Outstanding.			Remarks.
ACCOUNTING	£	s.	d.	£	s	d.	£	s.	d	
Cash at Bankers ..	*100*	*0*	*0*	*100*	*0*	*0*				
Cash in hand	*10*	*0*	*0*	*10*	*0*	*0*				
Cash deposited with Solicitor for Costs of Petition	*15*	*0*	*0*							
Property, viz. —										
(*a*) Stock-in-Trade .	*200*	*0*	*0*	*120*	*0*	*0*				
(*b*) Fittings and Fixtures etc .. .	*95*	*0*	*0*	*80*	*0*	*0*				
(*c*) Farm Stock, etc. ..										
(*d*) Furniture .. .	*300*	*0*	*0*	*295*	*0*	*0*				
(*e*) Life Policies , ..	*65*	*0*	*0*	*65*	*0*	*0*				
(*f*) Other property, viz.— *Shares*	*395*	*0*	*0*	*200*	*0*	*0*				
Book Debts—										
Good	*350*	*0*	*0*	*150*	*0*	*0*	*150*	*0*	*0*	
Doubtful and Bad ..	*100*	*0*	*0*	*50*	*0*	*0*	*10*	*0*	*0*	
Bills of Exchange ..										
Surplus from Securities ..	*200*	*0*	*0*	*100*	*0*	*0*	*100*	*0*	*0*	
Totals ..	*£1,830*	*0*	*0*	*£1,170*	*0*	*0*	*£260*	*0*	*0*	

Date of Receiving Order: *April 14, 19...*
Date of First Meeting: *April 25, 19...*
Date of Trustee's Certificate: *April 28, 19...*
Date when First Dividend due under Section 62 (2), viz. four months after First Meeting: *August 25, 19...*
Balance now at credit of Estate: *£985.*

DIVIDENDS.

When declared.	What declared per £.	If not declared, state reason. (If delayed by resolution of Committee state grounds on which such resolution adopted, and forward copy) *	State when Declaration will probably be Effected.
—	—	*Resolved by Committee of Inspection to declare one dividend only in order to save expenses*	*November 15, 19..*

* A 2s. Bankruptcy stamp is required.

LEGAL PROCEEDINGS AUTHORISED.

Date of Resolution authorising Employment of Solicitors	Name of Solicitors	Nature of Work authorised to be done.*	Limit of Costs authorised (if any)
May 15, 19..	*Robert Deed & Co.*	*Collection of Book Debt*	*£5*

If any actions or other proceedings are delaying the close of the Estate, state shortly the nature and probable duration thereof.*

If application for release not yet made, state reason and when Trustee expects to be in a position to apply for same.

State shortly any other circumstances tending to delay the winding up of the Estate, or affecting its realised value or the costs of its realisation.

Arthur Correct,
Trustee.
Date: *October 17, 19...*

To
THE INSPECTOR-GENERAL IN BANKRUPTCY,
HORSEGUARD'S AVENUE, WHITEHALL, LONDON, S.W.

* Where the above space is not sufficient for the answer, it may be written on the back or on a separate sheet.

final realisation and distribution of the estate. If the trustee has been unable to get a quorum of the C. of I. together for audit purposes, he should notify the B. of T. to that effect when forwarding the books for audit. The first return of this kind must also be accompanied by a summary of the debtor's statement of affairs, showing, in red ink, the amounts realised, and explaining the reason for non-realised assets if such there be (Rule 364). After audit, the Board of Trade issues a certificate, a certified copy of which is sent to the Registrar for filing. These returns, when filed, are open to inspection by creditors or other interested persons. If no transactions have taken place since his appointment, or the date of the last audit, an "*Affidavit of No Receipts and Payments*" must be forwarded by the trustee to the B. of T. (Rule 366). The audit fees charged by the Board are $1\frac{1}{2}$ % on the first £5,000, and $\frac{3}{4}$ % on all amounts above £5,000 on the gross amount of the assets realised and brought to credit. All entries in the Cash Book should be full and explicit. As far as possible, vouchers should be obtained for all payments. All entries must represent actual receipts and payments, and not estimates. Dividends paid to creditors are entered in one lump sum in the column provided for that purpose. Moneys

paid into, or withdrawn from, the Bankruptcy Estates Account are not entered in the "total" column, but in the "bank" column only. All sales must be entered gross, and any expenses connected therewith, when duly taxed, must be entered on the *contra* side as payments. The trustee must not, under any circumstances, pay estate moneys into his private banking account. All moneys received by him must be paid into the *Bankruptcy Estates Account* at the Bank of England. The regulations as to payments into this account, the form of the Receivable Order, the drawing of cheques, and opening and operating a local banking account, where authorised, have already been described in connection with the "Companies Liquidation Account" at p. 425. The same rules, regulations, and forms apply to bankruptcy proceedings also. Unstamped cheques may be used when a local banking account is authorised, since S. 148 exempts documents relating to the property of a bankrupt from stamp duty, except in respect of fees under the Act. A trustee who retains more than £50 for a period exceeding ten days without remitting it to the Bank of England incurs the same severe penalties as does a liquidator so defaulting in a winding up.

In a bankrupt partnership separate cash accounts must be kept of the joint estate and of the private estate of each partner, but one record book is apparently sufficient for both joint and separate estates.

By S. 87, every trustee must, at least once in every year, transmit to the Board of Trade a statement showing the proceedings in the bankruptcy up to the date of the statement in the prescribed form.

Trading Account.—Where the business of the debtor is continued, a Trading Account must be kept in the prescribed form (Rule 337). The weekly totals of this account are incorporated in the "Other Receipts" and "Other Payments" columns of the Cash Book, as shown in the form of Cash Book facing p. 630. The Trading Account, verified by affidavit, must be audited and certified by the C. of I. at least once every month. The prescribed form of the account (No. 189) is shown at p. 426. The necessary affidavit in verification (No. 191) also appears there, and, with suitable adjustments, shows the form of affidavit required in all cases where the verification of accounts is necessary. Payments for rents and rates incurred prior to the R O. must be treated as trading payments. Salaries, wages, and other preferential payments must be apportioned, and similarly treated. If the trustee carries on the business in a speculative manner with a view to making profits, he may become personally liable for losses incurred.

Dividends.—Unless the C. of I. is satisfied that reasonable ground exists for postponement, the trustee must, within four months of the first meeting of creditors, declare a dividend. Subsequent dividends must be distributed at intervals of not less than six months, unless there is good reason for deferment. When all the estate has been realised, the trustee must declare a *Final*

(Trading Account.)

THE BANKRUPTCY ACT, 1914.

IN THE *HIGH COURT OF JUSTICE*

IN BANKRUPTCY.

No. *399* of *19...*

Re MILES FURTHER, a Bankrupt.

Arthur Correct, the Trustee of the property of the Bankrupt in account with the Estate.

DR CR

Date	Receipts.	£	s	d	Date.	Payments.	£	s	d
19..					19..				
May 6	*Cash Sales for the week* ..	*19*	*5*	*10*	*May 1*	*Purchases of Goods* . .	*5*	*2*	*8*
					,, *2*	*Wages*	*3*	*10*	*0*
					,, *3*	*Advertising*	*2*	*0*	*0*
					,, *4*	*String, Brown Paper, etc*	*0*	*10*	*0*
					,, *5*	*Wages*	*3*	*0*	*0*
					,, *5*	*Purchases*	*1*	*4*	*0*
		£19	*5*	*10*			*£15*	*6*	*8*

Arthur Correct, Trustee.
Date: *May 6,* 19...

We have examined this Account with the vouchers, and find the same correct, and we are of opinion that the expenditure has been proper.

Robert Right
Leopold Left } Committee of Inspection.
Charles Centre

(Affidavit Verifying Trading Account.)

IN THE *HIGH* COURT OF *JUSTICE.*

IN BANKRUPTCY.

No. *399* of *19...*

Re MILES FURTHER, a Bankrupt.

I, *Arthur Correct, Chartered Accountant,* of *791 Finsbury Circus, London, E.C.,* the Trustee of the property of the above-named Bankrupt, make oath and say that the account hereto annexed is a full, true, and complete account of all money received and paid by me, or by any person on my behalf, in respect of the carrying on of the trade or business of the Bankrupt; and that the sums paid by me as set out in such account, have, as I believe, been necessarily expended in carrying on such trade or business.

Sworn at *72 Finsbury Court, London, E.C.,*
this *30th* day of *May, 19...*
Before me,
Frederick Deeds,
Commissioner. } *Arthur Correct,* Trustee.

Please bring this Dividend Notice with you.

NOTICE OF DIVIDEND.

No. 175.

IN THE .... COURT OF ....

No. .... of 19..

Re ....

of ....

.... DIVIDEND OF .... IN THE £.....

(Under Receiving Order dated ...., 19...)

Address ....

Date ...., 19...

NOTICE is hereby given that a .... Dividend of .... in the £ has been declared in this matter, and that the same may be received at my office, as above, on .... the .... day of .... 19.., or on any subsequent .... between the hours of .... and ....

Upon applying for payment, this notice must be produced entire, together with any Bills of Exchange, Promissory Note, or other negotiable securities held by you. If you desire the dividend to be paid to some other person, you can sign and lodge with the Trustee an authority in the prescribed form No. 176; otherwise, if you do not attend personally, you must fill up and sign the subjoined Forms of Receipt and Authority, when a cheque or money order payable to your order will be delivered in accordance with the authority.

Bills of Exchange.
Promissory Note.
Judgment Paper.

(Signed) ....
Trustee.

NOTE.—On application for the dividend, this Notice must be produced entire, and the bills or other negotiable securities held by you must be produced.

Dividend cheques are cancelled at the expiration of six months from the date of issue, and money orders at the expiration of twelve months from the month of issue. A fee of 2s. 6d. is chargeable on the reissue of a cheque or money order.

RECEIPT.

RECEIVED of .... the sum of .... pounds, ... shillings and .... pence, being the amount payable to me/us in respect of the .... dividend of .... in the £ on my/our claim against this estate.

(Creditor's signature) ....

(No stamp required.)

£ : : .

NOTE.—The Receipt and Authority should be signed by the creditor personally, or, in the case of a firm, by one of the partners.

AUTHORITY.

SIR,

Please deliver to me at my/our risk, or to the bearer, Mr. ...., the cheque or money order for the dividend payable to me/us in this matter.

(Creditor's signature) ....

Date ...., 19...

To ...., Trustee.

Dividend. The trustee must give notice of his intention to declare a dividend to the B. of T for advertisement in the *Gazette.* Similar notice must also be given to every creditor who has proved his debt. The prescribed form (No. 175) is given at p. 632. The latest date, which must not be less than fourteen days from the date of the notice, up to which creditors can prove their debts must form part of the notice to creditors. All proofs sent in response to this notice must be adjudicated upon within fourteen days of the time mentioned in the notice for their lodgment. If a creditor appeals against the rejection of his proof the trustee should reserve a sum sufficient to pay him his dividend and the probable costs of appeal in the event of his succeeding

Dividends are usually paid at the trustee's office on the day and time fixed for payment, but creditors may elect to have their dividends sent by post at their own risk. When declaring a dividend, the trustee must forward to the B. of T a certified list, in the prescribed form (2s bankruptcy stamp), of the proofs filed with the Registrar (see below). This list shows the amount for

BANKRUPTCY ESTATES ACCOUNT.

Ledger Folio ......

RE .... Court .... No. .... 19...

I hereby certify that the following list has been compared with the proofs filed, and that the names of the Creditors and the amounts for which the proofs are admitted are correctly stated.

*(Signature) ....

Dated the .... day of ...., 19...

I certify that by my books the sum of £ : : stands to the credit of the above Estate with the Bankruptcy Estates Account at the Bank of England, and that the sum of £ : : is required to meet the undermentioned Dividends, on proofs which have been duly made and admitted to rank for Dividend upon the Estate, and I have to request that orders for payment may be issued to me.

The Dividend is payable on the .... day of .... 19.., and Notice of declaration thereof was forwarded to the Board of Trade for insertion in the *London Gazette* on the .... day of ...., 19...

....

Trustee.

Date ...., 19...

.... { *Address to which Cheques and*
.... { *Money Orders should be sent.*

To The Board of Trade.

No.	Surname.	Christian Name	Town on which Post Office Money Order should be drawn.	Amount of Proof.			Sums under £2 payable in U K			Sums of £2 and above and Sums payable abroad		
				£	s	d	£	s.	d	£	s.	d.

* If the proceedings are in a County Court, to be signed by the Registrar. If the proceedings are in the High Court, to be signed by the Trustee.

(Statement to Accompany Notice of Dividend and Application for Release.)

THE BANKRUPTCY ACT, 1914.

IN THE *HIGH* COURT OF *JUSTICE.*

IN BANKRUPTCY.

No. *348* of 19...

IN THE MATTER OF *Collar Hinton,* of *1748 Cheapway, London, E.C*, under Receiving Order dated *sixth* day of *October,* 19...

STATEMENT showing the position of the estate at date of declaring the first dividend.

DR.

	Estimated to produce per Debtor's Statement £	s.	d.	Receipts. £	s	d
To total receipts from date of receiving order, viz.:—*						
Cash at Bank	*58*	*0*	*0*	*58*	*0*	*0*
Stock-in-Trade	*900*	*0*	*0*	*450*	*0*	*0*
Furniture	*400*	*0*	*0*	*200*	*0*	*0*
Life Policy	*250*	*0*	*0*	*250*	*0*	*0*
Book Debts	*1,000*	*0*	*0*	*500*	*0*	*0*
Surplus from Securities	*500*	*0*	*0*	*200*	*0*	*0*
Receipts per Trading Account				*800*	*0*	*0*
Other receipts				*50*	*0*	*0*
Total	*£3,108*	*0*	*0*	*£2,508*	*0*	*0*

CR.

	£	s.	d.	Payments. £	s.	d.
By Board of Trade and Court Fees (including stamp of £5 on petition)				*41*	*10*	*0*
Law costs of petition	*19*	*10*	*2*			
Other law costs	*24*	*8*	*6*	*43*	*18*	*8*
Trustee's remuneration, as fixed by the creditors,† viz. —						
5 % on *£2,082* assets realised	*104*	*2*	*0*			
5 % on *£1,550* assets distributed in dividend	*77*	*10*	*0*	*181*	*12*	*0*

	£	s.	d.	£	s.	d.
Less—						
Deposit returned to Petitioner	5	0	0			
Payments to redeem Securities						
Costs of execution						
Payments per Trading Account	421	0	0			
				426	0	0
Net realisations				£2,082	0	0
				£2,082	0	0

	£	s.	d.	£	s.	d.
Special manager's charges						
Person appointed to assist debtor under s 74 of the Bankruptcy Act, 1914				6	6	0
Auctioneer's charges as taxed				39	19	0
Other taxed costs				10	10	0
Costs of Possession						
Costs of Notices in *Gazette* and local papers				4	10	6
Incidental outlay				10	12	1
Total cost of realisation				£338	18	3
Allowance to debtor				25	0	0
Creditors, viz —						
‡ Preferential	121	10	6			
‡ Unsecured § dividend now declared of *10s* in the £ on *£3,100*	1,550	0	0			
Dividends previously declared						
The debtor's estimate of amount expected to rank for dividend was £2,860 10s. 2d. ..				1,671	10	6
Balance				46	11	3
				£2,082	0	0

By S. 82 (2) of the Bankruptcy Act, 1914, it is provided that "if one-fourth in number or value of creditors dissent from the resolution, or the bankrupt satisfies the Board of Trade that the remuneration is unnecessarily large, the Board of Trade shall fix the amount of the remuneration."

Assets not yet realised estimated to produce *£600.*

‖ *The value of certain shares in hand is improving.*

Creditors can obtain any further information by inquiry at the Office of the Trustee.

Dated this *28th* day of *March, 19*...

Robert Sure, Trustee.

46 Finsbury Crescent,

London, *E.C.*

* State particulars under the several headings specified in the Debtor's Statement of Affairs.
† "Creditors" *or* "Committee of Inspection" *or* "Board of Trade," or as the case may be.
‡ Insert number of creditors. § "1st," or as the case may be.
‖ Add any special remarks the Trustee thinks desirable.

NOTE.—When this Statement accompanies a declaration of a second or subsequent dividend, it shall incorporate the figures of the preceding Statement or Statements under their respective headings.

which each creditor's proof has been admitted, and states the dividend due thereon. At least ten days must be given to the B. of T. for the preparation of the necessary dividend cheques and money orders.

Unclaimed Dividends.—These must, after the expiration of six months, be paid into the Bankruptcy Estates Account at the Bank of England

Statement on Declaring Dividend.—Every notice of the declaration of a dividend must be accompanied by a statement showing the position of the realisation of the estate at the date of the notice. A specimen of the prescribed form of this statement is shown at pp. 634–5. In arriving at the net amount realised, upon which the trustee's remuneration is based, all assets collected by the O.R. must be deducted, in addition to payments made upon Trading Account and in redemption of securities held by creditors.

Release.—When the trustee has realised all the property capable of realisation without unreasonable delay, he will close the proceedings, so far as he is concerned, by applying to the B. of T. for his "Release" (S. 93). Before making application, he must give notice, in the prescribed form, to all creditors who have proved, and to the debtor, that he intends to apply. This notice must be accompanied by a statement showing the position of the estate. An actual statement of this kind is given at p. 637. The B. of T. will report upon the trustee's accounts, and any creditor, or other person interested, may object to the release being granted. Unless obtained by fraud, or by the suppression of facts, the order of release, when issued, absolves the trustee from all further liability in connection with the proceedings. The statement above referred to, when forwarded to the B. of T, must be accompanied by the books and materials necessary for the final audit, including the dividend receipts from creditors, a formal application for release, an affidavit (2s. bankruptcy stamp) of the due postage of the notices of intention to apply for release, together with a copy for insertion in the *Gazette*, and a certificate from the C. of I. and the trustee that all the available assets have been realised. Upon release, the trustee must hand over all the estate books and papers to the O.R.

Discharge of Bankrupt.—The application for discharge, the form of which is shown at p. 638, need not be delayed until the estate has been realised, but may be heard at any time after the debtor's public examination has been concluded. The Court appoints the day of hearing, and notice of it must be advertised in the *Gazette*, and sent, at least fourteen days before the hearing, to every creditor who has proved his debt. The Court takes into consideration a report of the O.R. on the bankrupt's affairs and conduct, both before and during the bankruptcy. The O.R, the trustee, and any creditor may oppose the application. As a result of the hearing the Court may do one of five things, viz. (*a*) grant an absolute order of discharge; (*b*) suspend the order for a limited time; (*c*) grant the order subject to conditions;

	Estimated as per Statement of Affairs £	s	d.	Realised to date. £	s	d
To Total Receipts from date of Receiving Order, viz —						
,, Deposit on Petition				5	0	0
,, Cash at Bankers	5	12	2	43	15	4
,, Cash in hand	59	14	2	60	0	7
,, Stock-in-Trade	2,313	0	0	} 3,689	7	0
,, Fixed Machinery	500	0	0			
,, Builders' Plant, Utensils, etc	2,500	0	0			
,, Office Furniture	100	0	0			
,, Bills and Unused Cheques	8	0	6	8	13	3
,, Book Debts —						
Good	2,986	2	4	3,045	19	5
Doubtful and Bad	10	0	0	} 1,297	10	8
,, Surplus from Securities	44,502	15	4			
,, Work in Progress (see Trading Receipts and Payments)	3,079	0	0			
,, Bank Interest				38	16	5
,, Trading Receipts				30,491	2	4
Total	£56,064	4	6	£38,680	5	0
Deduct— Payments to Secured Creditors .. .. .. 925 0 0; Trading Payments .. 26,693 14 2				27,618	14	2
Net Realisations				11,061	10	10
,, Balance due to Trustee				12	1	8
				£11,073	12	6

	£	s.	d.	Payments. £	s.	d.
By Board of Trade and Court Fees	392	18	0			
,, Official Receiver's Charges	85	9	2			
,, Official Receiver's Disbursements	68	4	3	546	11	5
,, Law Costs of Petition as taxed	31	16	4			
,, Other Law Costs	1,092	17	6	1,124	13	10
,, Auctioneer's and Valuer's Charges as taxed .				152	6	2
,, Trustee's Remuneration, as fixed by the Committee of Inspection :—						
5 % on Assets realised ..	524	13	8			
6 % on Assets distributed in Dividend .	314	14	3	839	7	11
,, Notices in *Gazette* and Local Paper				2	6	3
,, Persons appointed to assist Debtors under Sec. 74 [2] of Bankruptcy Act, 1914				63	0	0
,, Incidental Outlay				144	15	0
,, Special Manager's Remuneration as voted by Committee of Inspection				420	0	0
,, London County Council—Refund under Judgment . ..				631	1	9
Total Cost of Realisation				£3,924	2	4
,, Allowance to Debtors as voted by Official Receiver and Committee of Inspection				530	0	0
,, Creditors —						
Preferential Creditors for Rent, Rates, Taxes, Wages, and Salaries . . .	1,374	5	1			
Unsecured Creditors—Three Dividends previously declared, totalling 2s. 9¾d in the £ on £37,299 13s 1d total proofs admitted	5,245	5	1	6,619	10	2
(The Debtor's estimate of total proofs to rank for dividend was £36,945 1s 4d)						
			£	11,073	12	6

By s 82 (2) of the Bankruptcy Act, 1914, it is provided that "if one-fourth in number or value of creditors dissent from the resolution, or the bankrupt satisfies the Board of Trade that the remuneration is unnecessarily large, the Board of Trade shall fix the amount of the remuneration." In continuance of the observations on the position of the Estate accompanying the Third Dividend Notice. I have to report that an Order for foreclosure has been made in the case of the First Street and Second Street properties, consequently there is nothing further to be recovered. Creditors can obtain any further information on inquiry at my offices as below.

Dated this 21st November, 19...

ROBERT ADDER, *Trustee.*

1423 EAST STREET, LONDON, E.C.

(*d*) grant the order subject to conditions, with or without suspension; (*e*) refuse an order of discharge (SS. 26 and 27).

Refusal of Discharge.—By S. 1 (*a*) of the Act of 1926, the Court has an absolute discretion in all cases whether or not to grant the discharge. Except for special reasons, the Court will refuse the discharge in cases where the bankrupt has committed any misdemeanour under the Act of 1914 or any enactment repealed by that Act, or under the Act of 1926, or any other misdemeanour or felony in connection with his bankruptcy. Bankruptcy offences are detailed in Part VII of the Act of 1914, SS. 154–156, and S 5 of the Act of 1926. It is unnecessary to reproduce them here. In addition to forfeiting his discharge, a bankrupt guilty of committing a misdemeanour or felony is liable to be prosecuted and punished The Court may also refuse the discharge if any of the facts referred to in S. 26 (3) are proved against the bankrupt (see below).

Discharge Subject to Conditions, Etc.—By S. 26 (3) if any of the facts stated on p. 639 are proved against the bankrupt, the

(*Application for Discharge.*)

THE BANKRUPTCY ACT, 1914.

IN THE .... COURT OF ....

IN BANKRUPTCY.

No. .... of 19....

....

Ex Parte ....

I, ...
of ....
having been adjudged bankrupt on the .... day of .... 19 ...,
and being desirous of obtaining my discharge, hereby apply to the Court to fix a day for hearing my application

My public examination was concluded on the .... day of ...., 19....

Annexed hereto is the certificate of the Official Receiver certifying the number of my creditors.

(Signed) ....

To the REGISTRAR OF THE .... COURT.

Court may order either that (*a*) the discharge shall be suspended for not less than two years [but it may be for less than two years if the only fact established is that the debtor's assets are not of a value equal to 10s. in the £ of his unsecured liabilities]; or (*b*) be suspended until a dividend of not less than 10s. in the £ has been paid to the creditors; or (*c*) require the bankrupt as a condition of his discharge to consent to judgment being entered against him by the O.R. or the trustee for any balance or part thereof of the debts unsatisfied at the time of discharge, such judgment to be satisfied out of the after-acquired property of the bankrupt, but only when the Court, on proof that the bankrupt has since his discharge acquired property or income, gives leave for execution to be issued. If, after two years from the date of the order, the bankrupt satisfies the Court that there is no reasonable probability of his being able to comply with its terms, the Court may modify the terms as it thinks fit.

The facts referred to above are as follows:—

(*a*) That the bankrupt's assets are not of a value equal to 10s in the £ on the amount of his unsecured liabilities, unless he satisfies the Court that the deficiency has arisen from circumstances for which he cannot justly be held responsible.

(*b*) That he has omitted to keep proper books of account in his business within the three years immediately preceding his bankruptcy.

Any person adjudged bankrupt or in respect of whose estate a R.O. has been made is guilty of a misdemeanour if he has not kept proper books throughout the two years preceding the presentation of the petition, or has not preserved all books of account so kept He will not be convicted, however, if his unsecured liabilities at the date of the receiving order do not exceed £500 or if he can prove that in the circumstances in which he traded the omission was honest and excusable (S. 7, Act of 1926) If he had been previously adjudged bankrupt, the above limit is reduced to £100 (S. 7, Act of 1926).

[*Note*.—By S. 158 (3), as amended by S 7, Act of 1926, "proper books" means such books or accounts as are necessary to exhibit or explain his transactions and financial position in his trade or business, including a book or books containing entries from day to day in sufficient detail of all cash received and paid, and, where dealing in goods is involved, statements of annual stocktakings. and (except in the case of retail transactions) accounts of all goods sold and purchased, showing the buyers and sellers thereof in sufficient detail to facilitate identification. These not very onerous requirements would probably be satisfied by the simplest system of accounting.]

(*c*) That he has continued to trade after knowing that he was insolvent.

(*d*) That he has contracted any debt provable in the bankruptcy without having at the time reasonable expectation that he would be able to pay the debt.

(*e*) That he has failed to account for any loss or deficiency of assets.

(*f*) That he has brought on or contributed to his bankruptcy by rash speculations, or unjustifiable extravagance in living or by gambling, or culpable neglect of his business.

(*g*) That he has put any of his creditors to unnecessary expense by a frivolous or vexatious defence to any action brought against him.

(*h*) That he has, within three months preceding the date of the R.O., unjustifiably incurred expense by bringing a frivolous or vexatious action.

(*i*) That he has, within three months preceding the date of the R.O., when unable to pay his debts as they fell due, given an undue preference to any creditor.

[*Note*.—Undue, but not necessarily a *fraudulent*, preference.]

(*j*) That he has, within three months preceding the date of the R.O., incurred liabilities with a view of making his assets equal to 10s. in the £ on the amount of his unsecured liabilities.

(*k*) That he has been previously adjudged bankrupt or made a composition or arrangement with his creditors.

(*l*) That he has been guilty of any fraud or fraudulent breach of trust.

Effect of Discharge.—An unconditional discharge releases the bankrupt as from the date of the order from any debt provable in the bankruptcy, except the following:—

(*a*) Debt due to the Crown, unless the Treasury in writing consents thereto.

(*b*) Debts incurred by fraud or fraudulent breach of trust.

(*c*) Liability under a judgment against the bankrupt for seduction, or under an affiliation order, or as co-respondent in a matrimonial cause, except to the extent and under the conditions that the Court may order.

The order of discharge does not release a person who at the date of the R.O was a partner, or a co-trustee with the bankrupt, or a person who was surety for him (S. 28).

The effect of a conditional discharge is the same as that of an unconditional discharge, subject to the conditions of the former being observed.

Unless he is discharged from his bankruptcy, all property that may be acquired by or devolve upon the bankrupt passes to the trustee. But until the trustee intervenes *bona-fide* transactions for value in respect of after-required property are protected.

Disabilities of Bankrupt.—There are certain disabilities attaching to a bankrupt. By S. 155 it is a punishable offence for an undischarged bankrupt to obtain credit to the amount of £10 or upwards without disclosing the fact of his bankruptcy to the person from whom he obtains credit. So also, by the same section, is engaging in business under an assumed name without disclosing the name under which he was adjudicated bankrupt. An undischarged bankrupt may not sit or vote in the House of Lords or the House of Commons. Neither may he act as justice of the peace, mayor, alderman or councillor; or hold the office of guardian or overseer of the poor; or be a member of a school, highway, or burial board, or select vestry (S. 32, *Bankruptcy Act*, 1883), or act as a director except with the leave of the Court (S. 142, *Companies Act*, 1929; see p. 211).

As to the statutory duty of a banker to inform the B. of T. that an account opened with him is the account of an undischarged bankrupt, see p. 616.

It is desirable, then, that a bankrupt should obtain his discharge as soon as possible. Experience shows, however, that only a small percentage of bankrupts apply for their discharge.

Bankruptcy Offences.—Part VII of the *Bankruptcy Act*, 1914, as amended by the Act of 1926, deals with criminal offences in bankruptcy. It is not necessary to discuss these in detail, but two new offences were introduced by the Act of 1913, which are of importance to accountants. These only concern the trader, and they render him liable to punishment:—

(1) If he has, within two years before the petition, materially contributed to his insolvency by gambling or by rash and hazardous

speculation unconnected with his trade or business; or if between the petition and the R O. he has lost any part of his estate in this way; or if, being required by the O.R to account for the loss of a substantial part of his estate within a year before the petition, he fails to give a satisfactory explanation (S. 157). Or

(2) If having been previously adjudged bankrupt, or having made a composition with his creditors, he is again adjudged bankrupt, or if a R O is made against him, and during any part of two years before the petition he was engaged in business and has not kept proper books of account. The Act does not expressly specify what books of account are necessary, but they must be such books as will satisfy the description of them given in S. 158 (3) reproduced at p. 639.

DEEDS OF ARRANGEMENT.

Arrangements made under these deeds must not be confused, as students and business men frequently do confuse them, with the schemes of composition proposed and considered at a first meeting of creditors, *in a bankruptcy* or subsequently. As already explained, a scheme of composition in bankruptcy proceedings is officially sanctioned by the Court. A deed of arrangement [hereinafter designated by the abbreviation D.A.] is entered into without bankruptcy proceedings being instituted at all, and is an entirely voluntary arrangement between the debtor, his creditors, and the trustee, or trustees, appointed to see that the deed is carried out. If a debtor is able to make acceptable proposals to his creditors, it is usually more advantageous to both parties to enter into a voluntary deed than to set in motion the more public and expensive bankruptcy proceedings.

The law now governing Ds of A. is contained in the *Deeds of Arrangement Act*, 1914, and the *Deeds of Arrangement Rules*, 1915. The Act of 1914 and the 1915 Rules repealed former Acts and Rules relating to these deeds. Neither applies to Scotland or Ireland. It is to this Act and these Rules that reference is made in the ensuing pages.

When Deed is Void.—A D A. is void unless it is registered within seven clear days after the first execution thereof (S. 2, and *Administration of Justice Act*, 1925, S. 22). It is void unless within twenty-one days after registration (or such extended time as the Court may allow) it has received the assent of a majority in number and value of the creditors (S. 3 [1]) Assent to the D.A. is established by the creditor executing the deed, or by his sending to the trustee his assent in writing attested by a witness (S 3 [3]).

Letter of Assent—Letters of assent need no stamp, and no statutory form is obligatory, though a form of assent is attached to the 1915 Rules. The following is a common form.—

ASSENT TO DEED OF ARRANGEMENT

In re Baldwin Blank, trading as *Baldwin Blank and Company*, *of 15 Tower Crescent, London, E.C* I, the undersigned, being a creditor of the said *Baldwin Blank*, hereby assent to the deed of arrangement executed by him dated the *fourth day of July, 19* ., and hereby agree with him and *George Check*, the trustee of the said deed, and with all the creditors of the

said *Baldwin Blank* that I will execute the said deed when called upon for the amount of my claim, *£40 6s. 8d.*

Dated this *tenth day of July, 19...*

Peter Blair,
14 Throgmorton Place,
London, E.C.

Witness:—
Robert Ledger,
162 Forth Bridge Street, S.E.,
Clerk.

Jurisdiction.—The Court competent to exercise jurisdiction under the Act is the High Court, or the Court exercising bankruptcy jurisdiction in the district in which the debtor resided or carried on business at the date of the execution of the D.A. (S. 23).

Calculating a Majority.—In calculating a majority in number and value of the creditors, a secured creditor is reckoned a creditor only for the balance (if any) between the value of his security and the amount of the debt, and creditors whose debts do not exceed £10 are reckoned in the majority in value but not in number (S. 3 [5]).

Registration of Deeds.—Deeds of Arrangement must be registered with the Registrar of Bills of Sale (the Inspector-General in Bankruptcy) at the Bills of Sale Department of the Central Office of the Supreme Court. A true copy of the deed, and of every inventory or schedule annexed thereto, or referred to therein, must be presented to the Registrar, together with an affidavit verifying the time of execution, and containing a description of the residence, and occupation of the debtor, of the place or places where his business is carried on, and an affidavit by the debtor stating the total estimated amount of property and liabilities included under the deed, the total amount of the composition, and the names and addresses of the creditors. At the same time the original deed must be produced, stamped with the proper revenue stamp (10s.), and, in addition, with stamps denoting duty at the rate of 1s for every £100 or fraction thereof of the value of the sworn value of the property passing thereunder, or, where no property passes the amount of composition payable Any person may inspect the register on payment of 1s., and may have a copy of it at a cost of 6d. per folio of 72 words. If the deed affects lands, it must be registered in the Land Registry in order to be good against a purchaser for value (*Land Charges Act*, 1925, SS. 8 and 9).

Statutory Declaration to be Filed.—At the time of registering the deed, or, if the deed is assented to after registration, then within twenty-eight days after registration, the trustee must file with the Registrar a statutory declaration (see p. 643) that the requisite majority of the creditors have assented to the deed (S. 3 [4]).

Security to be Given—The trustee must, within seven days from the date of filing the statutory declaration mentioned above, give security to the Court equal in amount to the estimated value of the assets available for distribution amongst the unsecured creditors, unless by a majority in number and value the creditors dispense with his giving such security (S. 11 [1]). If the trustee fails to comply with this requirement, then, on application by any creditor, the Court may declare the deed void, or make an order appointing another trustee (S. 11 [2]).

Banking.—All moneys received by the trustee under a D.A.

IN THE MATTER of a Deed of Arrangement between ....
....
of ....
*..... ....
and his Creditors dated the .... day of ...., 19..
† (and registered under the Deeds of Arrangement Act, 1914, on the .... day of ...., 19..).

I, ...
of ....
being the Trustee under the above-mentioned Deed of Arrangement, do solemnly and sincerely declare that the requisite majority in number and value of the Creditors of the said ...., so far as the same are known to me, have assented to the said Deed of Arrangement

And I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1835.

DECLARED at ....,
in the .... of ....,
this .... day of ...., 19...

Before me,

....
A Commissioner for Oaths.

* Add description.
† Strike out words in brackets if deed has not been already registered.

DEEDS OF ARRANGEMENT ACT, 1914.

NOTICE TO CREDITORS OF DEED OF ARRANGEMENT.

IN THE MATTER of a Deed of Arrangement between ....
....
of ....
*......... . ...
and his Creditors, dated the .... day of . ..., 19..,
and registered under the Deeds of Arrangement Act, 1914, on the .... day of ...., 19. .

TAKE NOTICE that a Deed of Arrangement by, for, or in respect of the affairs of ...., of ...., has been duly executed and registered, and a certificate of the assents of Creditors thereto duly filed, and that after the expiration of one month from† .... you will not be entitled to present a Bankruptcy Petition against ....
....
founded on the execution of the Deed, or on any other act committed by h.... in the course of or for the purpose of proceedings preliminary to the execution of the Deed, as an act of Bankruptcy, unless the Deed becomes void.

Dated this .... day of ...., 19...

....

Trustee under the said Deed of Arrangement.

To ....

* Add description † Insert date of posting.

must be banked in an account opened in the name of the debtor's estate (S 11 [4]).

Bankruptcy Proceedings when Barred—If the trustee serves in the prescribed manner (see p. 643) notice in writing of the execution of the deed, and of the filing of the statutory declaration certifying the creditor's assent thereto, with an intimation that the creditor will not, after the expiration of one month from the service of the notice, be entitled to present a bankruptcy petition founded on the execution of the deed, or upon any other act preliminary thereto, as an act of bankruptcy, then the creditor is not, after the expiration of one month, entitled to present a bankruptcy petition against the debtor, founded on the execution of the deed as an act of bankruptcy, unless the deed becomes void (S. 24 [1]). Prior to the Act of 1914, a trustee under a D.A. acted at personal risk to himself for the first three months, since during that period a non-assenting creditor could present a bankruptcy petition founded on the deed. In this way the whole proceedings under a deed were sometimes upset by unscrupulous creditors, in order to obtain some personal advantage over other creditors.

When Trustee is not Liable.—If a deed is void because the requisite majority of creditors have not assented, or because, being for the benefit of three or more creditors, the debtor was insolvent at the time of execution, and it was not registered, but is not void for any other reason, then, if a R O. is made against the debtor on a petition presented after three months from the execution, the trustee will not be liable to account to the trustee in bankruptcy for dealings with or payments out of the debtor's property which would have been proper if the deed were valid, if the trustee proves that he did not know and had no reason to suspect that the deed was void (S. 19).

Trustee's Expenses to be Paid.—If the deed is avoided by the bankruptcy of the debtor, expenses properly incurred by the trustee under the deed in the performance of duties imposed by the Act are to be paid by the trustee in bankruptcy as a first charge on the estate (S. 21) But this section does not give the trustee any lien where none existed before, and the expenses referred to are very limited (*re Geen*, [1917] 1 K B. 183). Outside these limits it is in the discretion of the trustee in bankruptcy whether he shall pay. The expenses incurred by the trustee of the deed must be shown to have benefited the estate (*re Simonson*, [1894] 1 Q.B. 433).

Accounts.—The trustee is bound under penalty to send every six months to every creditor who has assented to the deed a statement of account and of the proceedings under the deed in the prescribed form down to the date of the statement. Similar accounts must be sent to the B. of T verified by affidavit (S. 14).

The accounts of a trustee are subject to a B of T. audit at any time during the administration, or within twelve months after the final accounts have been rendered, if a majority in value and number of the creditors apply to the Board for an audit. If such an application is made, the provisions of the Bankruptcy Act, 1914, with regard to audit apply (S. 15 [1]).

Preferential Payment.—A trustee who makes a preferential

payment to any creditor, without express authority being given him so to do by the deed, or unless such a payment would be lawful in a bankruptcy, is guilty of a misdemeanour (S. 17)

Notice to be Given when Deed is Void.—Where a D A. becomes void for any reason, e.g. failure to obtain the necessary assent, except for the reason that it has not been registered within the time allowed by the Act, the trustee must as soon as practicable give notice in writing of the fact to all creditors whose names and addresses he knows, and file a copy of the notice with the Registrar (S 20).

Unclaimed Dividends —At any time after the expiration of two years from the date of the registration of the deed, the Court may, on the application of the trustee, or any creditor, or the debtor, order that unclaimed dividends and undistributed funds in the hands or control of the trustee be paid into Court (S. 16).

Submission of Scheme.—In the majority of cases the trustee under a D.A. or scheme of composition has previously acted for the debtor in the preparation of the Statement of Affairs for submission to the creditors' meeting. Very frequently he attends the meeting for the purpose of explaining the debtor's position and submitting the terms of the scheme. Usually the debtor is not actually present at the meeting, but in attendance should his presence be required.

Generally, the largest creditor takes the chair at the meeting, and the names of the creditors are read out, or a list of them is placed on the table. It is usual at the meeting to appoint a committee of creditors to act with the trustee Statements of Affairs for these creditors' meetings are not confined to any statutory form A form commonly used for this purpose is shown below.

Name ....
Address . ...

DEBTOR'S STATEMENT OF AFFAIRS.

Date ....

LIABILITIES.	£	s	d	ASSETS	£	s.	d.
Unsecured Creditors —				Cash in hand			
Trade				Cash at Bank			
Cash				Stock-in-Trade, at cost			
Creditors fully secured (£ s. d)				Book Debts— (£ s d)			
Estimated Value of Security				Good			
Surplus to contra, £				Doubtful			
				Bad			
				£			
Creditors partly secured (£ s d)				Estimated to realise			
Less: Estimated Value of Security				Plant and Machinery			
				Trade Fixtures and Fittings			
				Household Furniture			
				Life Policies			
Liabilities on Bills discounted, of which it is expected will rank against the Estate for Dividend				Bills of Exchange or other Securities, estimated to produce			
Contingent or other Liabilities				Surplus from Securities in hands of Creditors, see contra			
Creditors for Rent, Rates, Taxes, and Wages, deducted from contra, £ : /				*Other Assets*			
Surplus				Deduct Preferential Claims, as contra			
				Deficiency			
£				£			

The terms of Ds. of A. naturally vary according to circum-

stances, but, briefly stated, they usually contain provisions such as those set out hereunder.

Form of Deeds of Arrangement.

A debtor is free to make any arrangement with his creditors of which they approve, though the requirements of the Act as to registration must in any case be complied with. Probably the form of arrangement which is most usual is that by which the debtor assigns to a trustee, with or without a Committee of Inspection, all his property upon trust to realise it and distribute the proceeds rateably among his creditors, and the creditors give to the debtor a release from his debts. This arrangement is similar in effect to a bankruptcy, and where this is offered the creditors very generally accept it, unless they consider the circumstances unsatisfactory, and such as call for the public investigation which bankruptcy secures.

Another mode of arrangement of a debtor's affairs is for the debtor or his friends to offer a composition of a stated amount. In that event the debtor covenants with the trustees for payment of the composition, and may assign his property to the trustees upon trust to permit the debtor to carry on business, subject to the control of the trustee, until default is made in payment of the composition or an instalment of it, but with power to realise and distribute the proceeds if default should be made.

In both of these cases the creditors are often induced to accept the debtor's proposal because "family" or "cash creditors" have offered to withdraw their claims against the debtor, in order to enhance the dividend or composition paid to the trade creditors, or because the family creditors have agreed to postpone their claims until the agreed composition has been paid to the trade creditors.

Other forms of arrangement are sometimes effected. In lieu of a covenant to pay a composition, the debtor may give his creditors bills in payment, and in that event the trust to realise the debtor's property would arise upon the bills not being met at maturity. Sometimes the deed is called a deed of inspectorship, by which the creditors license the debtor to carry on the business for a time, subject to control by the inspector or committee, and agree not to sue for their debts for a stated period. The debtor agrees to carry on the business under such control, to keep proper books, and to allow examination of them and all vouchers. The inspector is empowered to employ assistants to carry on the business, to receive the profits therefrom (less a maintenance allowance for the debtor), and to hold the profits on trust for division amongst the creditors, either by way of dividend till the debts are discharged in full, or until a fixed composition upon the debts has been paid. Further, the debtor agrees to assign the business to the inspector if required to do so for the purpose of winding up. The creditors generally reserve to themselves power to determine by resolution the course to be taken in respect of the business.

In any of these schemes a surety or sureties may be joined, if such can be found, to covenant with the creditors for payment of the composition, or for the performance of whatever obligations lie upon the debtor under the deed.

Application of Provisions of the Act.—The provisions of the *Deeds of Arrangement Act*, 1914, with respect to registration and the rendering of accounts, apply not only to deeds "for the benefit of creditors generally," but also to deeds executed by an insolvent debtor "for the benefit of any three or more creditors." The other provisions of the Act only apply to deeds which are "for the benefit of creditors generally."

EXAMINATION QUESTIONS.

1. State the ground on which a person can be made bankrupt, and to what persons the bankruptcy laws apply. (*Royal Society Arts.*)

2. State any three "acts of bankruptcy" upon which a petition can be founded. (*Central Association Accountants.*)

3. What is a bankruptcy notice? Can such a notice be served on (*a*) an infant; (*b*) a married woman; (*c*) a foreigner? (*Incorporated Accountants.*)

4. Summarise the cases in which a debtor commits an act of bankruptcy. (*Royal Society Arts.*)

5. Explain how far, if at all, the bankruptcy laws are applicable to (*a*) married women; (*b*) companies; (*c*) limited partnerships; and state to what modifications the provisions of the Bankruptcy Act, 1914, shall be subject in the case of small estates. (*Incorporated Accountants.*)

6. When does bankruptcy commence in bankruptcy proceedings? Why is this an important matter? (*Chartered Accountants.*)

7. At what date is bankruptcy presumed to commence? Can the following transactions be set aside in bankruptcy, where the act of bankruptcy took place on January 1st, the receiving order was made on March 10th, and the adjudication took place on April 18th: (*a*) Payment by the debtor to a creditor on February 1st; (*b*) sale of furniture by the debtor on February 10th; (*c*) sale of jewellery by the debtor on April 5th. (*Central Association Accountants.*)

8. When is the Official Receiver trustee in a bankruptcy? (*Chartered Accountants.*)

9. In what circumstances will an adjudication in bankruptcy follow the making of a receiving order against a debtor? What will be the immediate effect of the adjudication as regards the property of the debtor? (*Chartered Accountants.*)

10. What matters must be proved at the hearing of a bankruptcy petition presented by a creditor before the Court will make a receiving order? On what different grounds may the Court dismiss such a petition? (*Chartered Accountants.*)

11. Give specimens of the forms of accounts to be used in the Statement of Affairs required to be filed by a bankrupt. (*Chartered Accountants.*)

12. Describe the differences which exist between a Statement of Affairs and a Balance Sheet. Give a specimen of the former account, and explain how it is prepared. (*Royal Society Arts.*)

13. Sketch the "Summary Sheet" and the "Deficiency Account" of the Statement of Affairs Supposing the debtor shows a surplus of assets over liabilities, is the Deficiency Account still required to be rendered, and how should it be set out? (*Chartered Accountants.*)

14. Robert Blank has filed a petition in bankruptcy. He has prepared a Statement of Affairs which discloses a deficiency of £3,876. Is any further

statement necessary? If so, submit a *pro-forma* account based upon figures which explain the above deficiency. (*Royal Society Arts.*)

15. Appointed a trustee in bankruptcy, you receive from the Official Receiver the debtor's Statement of Affairs. As it happens, you have assisted the debtor in its preparation. To what extent is such assistance to be given? Who fixes the remuneration for such assistance, and upon what basis? If you consider the method of fixing the remuneration inequitable, state in what way you think it might be amended. (*Chartered Accountants.*)

16. Draw up a *pro-forma* Statement of Affairs and a Deficiency Account. (*Chartered Accountants.*)

17. What is a Deficiency Account, and with what object is it prepared? Sketch one in skeleton form. (*Chartered Accountants.*)

18. What do you understand by a Deficiency Account? In the case of a trader who had been in business for five years and not kept proper accounts, by what process would the first item of a Deficiency Account be ascertained? (*Chartered Accountants.*)

19. What is the object of a Deficiency Account? Give a sketch of one (*a*) in a compulsory liquidation, (*b*) in a bankruptcy, introducing hypothetical figures in each case. (*Chartered Accountants.*)

20. What classes of creditors are entitled to preferred treatment in bankruptcy, and in what order do they rank for payment? (*Central Association Accountants.*)

21. Before his bankruptcy the debtor owed £50 to a workman in his employment as compensation for injuries; he also owed £20 for rates, and £10 to his servant for wages. Should the trustee give these debts any priority over ordinary debts, and, if so, in what order should they rank for payment? (*Central Association Accountants.*)

22. A receiving order has been made against a debtor, and he now desires to offer a composition to creditors. What procedure must be followed if the proposed scheme is to be binding? Will the Court sanction a composition, conditionally or otherwise, if the insolvency was due to the debtor's misconduct? (*Central Association Accountants.*)

23. Distinguish between a deed of arrangement and a scheme of composition in bankruptcy, particularly with reference to the extent of the control to be exercised by the Board of Trade in either case. (*Incorporated Accountants.*)

24. What power have the creditors to accept a composition or scheme after an adjudication of bankruptcy, and what proceedings and consequences follow upon its adoption? (*Incorporated Accountants.*)

25. What provision is made by the Deeds of Arrangement Act, 1914, for the giving of security by the trustee appointed under a deed of arrangement entered into by a debtor for the benefit of his creditors? Do the provisions of this Act apply to a deed executed by the debtor in favour of *some* only of his creditors? (*Central Association Accountants.*)

26. In what form has a creditor to assent to a deed of arrangement, and what evidence that the requisite majority has assented is deemed conclusive? (*Chartered Accountants.*)

27. What means may a debtor adopt to obtain a discharge for his debts other than by ordinary bankruptcy? (*Incorporated Accountants.*)

28. You are appointed trustee under a deed of assignment. What are your principal duties? (*Incorporated Accountants.*)

29. Specify the conditions and formalities necessary to be fulfilled before a deed of arrangement becomes absolute.

How are the prescribed majorities to be computed?

Explain the position of the several parties interested if, after a deed has been duly executed, a receiving order is made against the debtor. (*Incorporated Accountants.*)

30. What returns have to be made to the Board of Trade, and at what time, by a trustee under a deed of assignment? (*Chartered Accountants.*)

31. How is the trustee of a deed of arrangement appointed, and how is he discharged? (*Chartered Accountants.*)

32. What effect has bankruptcy on the personal status of the bankrupt? (*Royal Society Arts.*)

33. Who is deemed to be a creditor for the purposes of a bankruptcy petition? (*Royal Society Arts.*)

34. At what stage in bankruptcy proceedings is the public examination of a debtor usually held? In what circumstances, if any, may this examination be dispensed with? (*Chartered Accountants.*)

35. Under whose control does a trustee in bankruptcy act, and to what extent are his actions regulated by such control? (*Chartered Accountants.*)

36. What assistance is a trustee in bankruptcy entitled to demand from a debtor to enable him to realise the debtor's estate? What other powers has a trustee for the discovery of the debtor's property? (*Incorporated Accountants.*)

37. By what means can a trustee in bankruptcy obtain information as to transactions affecting the bankrupt's estate which he believes to be in possession of persons other than the bankrupt, who are not known to be debtors to or creditors of the estate? (*Chartered Accountants.*)

38. A receiving order has been made against J. Smith, and he has now made proposals to his creditors for a scheme of arrangement, his assets are less than 10s. in the £. What must he show before the Court will approve of the scheme? (*Central Association Accountants.*)

39. State the provisions of the Deeds of Arrangement Act, 1914, as to (*a*) the transmission of the trustees' accounts to creditors; and (*b*) the audit of his accounts. (*Incorporated Accountants.*)

40. In what circumstances (if any) is the Court bound to reject a proposal for a composition or scheme of arrangement of a debtor's affairs? In what circumstances may a composition or scheme which has been approved by the Court be annulled by the Court? (*Chartered Accountants.*)

41. The Bankruptcy and Deeds of Arrangement Act, 1914, requires traders to keep "proper books of account." How does the statute define what these books should be, and what books do you think sufficient, in the case of a firm of contractors, to satisfy the requirements of the statute? (*Central Association Accountants.*)

42. As trustee of a deed of arrangement, what are your duties as to rendering accounts to the Board of Trade? (*Chartered Accountants.*)

43. What new offences were created by the Bankruptcy and Deeds of Arrangement Acts, 1914? (*Incorporated Accountants.*)

44. What are the essential requisites of a valid deed of arrangement, and what right has any person to inspect deeds of arrangement after their execution, and to take extracts therefrom? (*Incorporated Accountants.*)

45. What particulars is a trustee under a deed of arrangement bound to forward periodically to the creditors, and when has this to be done? (*Chartered Accountants.*)

46. Has a trustee in bankruptcy power (*a*) to carry on the bankrupt's business; (*b*) to sell the bankrupt's business; (*c*) to realise property of which the bankrupt was tenant in tail? (*Central Association Accountants.*)

47. What rights has a trustee in bankruptcy to deal with the following property belonging to the bankrupt: (*a*) Stocks and shares, (*b*) books and letters; (*c*) houses and land? State how he establishes his title in each case. (*Central Association Accountants.*)

48. On what grounds may the Board of Trade object to the appointment of a trustee in bankruptcy, and in what manner may the validity of such objection be tested? (*Incorporated Accountants.*)

49. What sanction is it necessary for a trustee in bankruptcy to obtain in order to make an allowance to the bankrupt otherwise than in cash? (*Chartered Accountants.*)

50. What is the effect of the "order and disposition" clause in the Bankruptcy Act, 1914? In the bankruptcy of a trader, can the trustee claim goods entrusted to the debtor by a wholesale firm "on sale or return"? (*Central Association Accountants.*)

51. What do you understand by the doctrine of "reputed ownership"? At the date of his adjudication a bankrupt has in his possession (*a*) certain fixtures; (*b*) shares in Harrods, Ltd.; (*c*) furniture comprised in a registered bill of sale, (*d*) a motor-car under a hire-purchase agreement. Are any, and if so which, of the above "goods" in his "reputed ownership"? (*Incorporated Accountants.*)

52. What kinds of property may a trustee in bankruptcy disclaim, and what is the effect of disclaimer? (*Royal Society Arts.*)

53. What power has a trustee in bankruptcy to disclaim any and what portions of the property vested in him? In what manner, and within what time, must such disclaimer be exercised? (*Incorporated Accountants.*)

54. A bankrupt was lessee of certain property which he had covenanted to keep in repair; the trustee took possession of the property, but is now anxious to disclaim. What steps must he take, and within what time must he act? (*Central Association Accountants.*)

55. What are the powers and responsibilities of a trustee in bankruptcy with regard to (*a*) disclaiming onerous property; (*b*) voluntary settlements made by the debtor? (*Chartered Accountants.*)

56. In April, 19 , J S was adjudicated bankrupt. His assets include 100 shares of £5 each in the Mortgage Trust Company, Ltd. (£3 paid up). On May 1st the company made a call of £1 on the shares The trustee proposes to disclaim How can he do so? How will this affect the rights of the parties? (*Central Association Accountants.*)

57. What is the position of a person who is injured by a disclaimer of property of a bankrupt by his trustee in bankruptcy, and what relief is open to such injured person? (*Chartered Accountants.*)

58. Explain the term "fraudulent preference." Can property, transferred by means of a fraudulent preference, be reclaimed by the trustee in bankruptcy? (*Royal Society Arts.*)

59. What kinds of assignments are said to be fraudulent for the purposes of the Bankruptcy Acts? (*Royal Society Arts*)

60. What debts and liabilities are respectively provable and not provable in bankruptcy? State the rules as to the proof of debts, in respect of the verification of the debt, secured creditors, amendment of proof, rent, and interest on debt (*Incorporated Accountants.*)

61. Are all claims against a debtor provable in bankruptcy? If not, state any which are not provable. (*Chartered Accountants.*)

62. If a trustee in bankruptcy admits a proof of debt which is objected to by a creditor, what is the proper course for the trustee to adopt, and what rights would the objecting creditor have? (*Chartered Accountants.*)

63. What are the duties of a trustee in bankruptcy as regards the admission of proof by the holder for value of an accommodation bill against the estates of the drawer and the acceptor? (*Chartered Accountants.*)

64. For what amount would you admit a proof on a bankrupt's estate under the following circumstances: The debtor owed his bankers £1,000, and deposited with them as security his life insurance policy, the surrender value of which was £100 His wife deposited deeds of house property valued at £400, and two friends guaranteed £250 each. (*Chartered Accountants*)

65. Is "set-off" allowed in bankruptcy? Explain the difference (if any) in this respect between bankruptcy and the winding up of a limited company. (*Chartered Accountants.*)

66. By what provisions of the Bankruptcy Acts must a trustee in bankruptcy be guided in dealing with the claims of secured creditors ? *(Chartered Accountants.)*

67. What separate notices have to be given of the appointment of a trustee in bankruptcy ? How may objection be formally taken to his appointment, and what are deemed to be sufficient objections ? *(Incorporated Accountants.)*

68. State carefully the requisites to constitute a fraudulent preference in bankruptcy. Would it constitute a fraudulent preference if a debtor preferred a creditor from a sense of honour or in order to repair a breach of trust ? *(Incorporated Accountants.)*

69. What time has the trustee within which to admit or reject proofs of debts ? What rights have creditors to appeal from his decisions thereon ? *(Central Association Accountants.)*

70. In bankruptcy, may a creditor prove for a debt payable at a future time ? If so, what rules govern his claim ? *(Chartered Accountants.)*

71. A B, a creditor for £100 in X's bankruptcy, sends in his proof on March 1, 19 .. How soon must the trustee decide as to it ? In the event of his rejecting it, what right of appeal is open to A B, and what is the procedure thereon ? *(Central Association Accountants.)*

72. When and to what extent can a creditor prove in bankruptcy for interest on his debt ? *(Chartered Accountants.)*

73. Give a skeleton of the account which a trustee in a bankruptcy must send with the notice of a final dividend. *(Chartered Accountants.)*

74. A B is a creditor in X's bankruptcy for £50, for which he holds as security a life policy, valued in his proof at £15. What are the rights of the trustee as to purchasing the security ? What can he do if he is dissatisfied with the creditor's valuation ? *(Central Association Accountants.)*

75. Where a secured creditor assesses the value of his security in his proof, what are the trustee's rights in respect of such security, and what right has the secured creditor as against the trustee ? State also the courses open to a secured creditor in regard to proving in a bankruptcy. *(Chartered Accountants.)*

76. State the rules applicable to the administration of the estate of bankrupt and insolvent partners. How is a creditor of a firm to be treated who holds a security for the debt on the separate property of a partner ? *(Incorporated Accountants.)*

77. What are the rights of a trustee in bankruptcy as regards the proofs of creditors holding (*a*) direct security ; (*b*) collateral security ? *(Chartered Accountants.)*

78. To whom and in what circumstances may a creditor in a bankruptcy give a general and a special proxy respectively ? *(Chartered Accountants.)*

79. State briefly the provisions of the Bankruptcy Acts with respect to the appointment, constitution, and meetings of a Committee of Inspection. What is the primary duty of such a Committee ? If no Committee is appointed, by whom are its functions performed ? *(Chartered Accountants.)*

80. Specify the powers that the trustee in bankruptcy may exercise (*a*) with the permission of the Committee of Inspection ; and (*b*) without such permission. *(Incorporated Accountants.)*

81. What are the powers which a trustee in bankruptcy can only exercise with permission of the Committee of Inspection ? If no such Committee has been appointed, whose consent must the trustee obtain if he wishes to exercise any such powers ? *(Incorporated Accountants.)*

82. What books and accounts must be kept by a trustee in bankruptcy, and by whom and how often are they to be audited ? *(Chartered Accountants.)*

83. What are the rules laid down with regard to the accounts to be kept

by a trustee in bankruptcy in regard to carrying on a business ? (*Chartered Accountants.*)

84. What facts or figures should be shown by the trustee in the Record Book, and how do the Bankruptcy Rules provide for its audit and inspection ? (*Central Association Accountants.*)

85. A trustee in bankruptcy desires to open an account in the name of the debtor's estate at a local bank Whose consent is necessary before this can be done, and what grounds must be advanced by the trustee in order to obtain such consent ? How will the cheques in the account be drawn and signed ? (*Central Association Accountants.*)

86. Briefly explain the duties and obligations of a trustee in bankruptcy as to the presentation and audit of his accounts with reference to (*a*) the Board of Trade, (*b*) the Committee of Inspection; (*c*) when trading is carried on. (*Chartered Accountants*)

87. (*a*) State in detail what duties devolve on a trustee in bankruptcy with reference to the audit of his accounts (*b*) Set out clearly the duties of a trustee in bankruptcy (1) in relation to obtaining and operating on a local banking account; (2) as to dealing with moneys received, and in what circumstances he may incur penalties in regard thereto. (*Chartered Accountants*)

88. In bankruptcy, what alternatives has a secured creditor if he wishes to vote ? If the proof of a partly secured creditor has been used for voting purposes, what are the rights of the trustee in relation to the security ? (*Chartered Accountants.*)

89. On May 1, 19.., John Bull, a butcher, committed an act of bankruptcy. A petition was presented against him on June 16th, a receiving order made on July 10th, and he was soon after declared bankrupt. His trustee discovers that Bull had assigned his "existing and future book debts" to his principal creditor, R. Veale, on April 4, 19 . Upon what considerations should the trustees decide as to the validity of this assignment ? (*Central Association Accountants.*)

90. X, a creditor for £200 in Y's bankruptcy, holds as security for the debt a policy of insurance on Y's life. X has valued this at £130 Can he afterwards amend this valuation ? If so, upon what terms as to (*a*) costs, (*b*) dividends previously paid ? (*Central Association Accountants.*)

91. Of whom does the Committee of Inspection consist ? What constitutes a quorum of such Committee, and how is a vacancy in the office filled ? (*Incorporated Accountants.*)

92. In a bankruptcy, have any creditors, and if so, which of them, a right to inspect the trustees' books, and what books and other documents, if any, can they have copies of, and on what terms ? (*Chartered Accountants.*)

93. Give the headings (without rulings) of the Cash Account of a trustee in bankruptcy to be filed with the Board of Trade State shortly in what manner you would consider the form might be amended or simplified (*Chartered Accountants.*)

94. What is the duty of the trustee as to (*a*) furnishing lists of creditors, (*b*) keeping books, (*c*) reporting the course of the bankruptcy to the Board of Trade; (*d*) unclaimed dividends ? (*Incorporated Accountants.*)

95. What right has a trustee in bankruptcy to open an account at a local bank instead of at the Bank of England ? (*Central Association Accountants.*)

96. What course should be adopted by a trustee in bankruptcy before declaring a dividend ? Is there any manner of enforcing the payment of a dividend ? (*Incorporated Accountants.*)

97. Is anyone restricted from purchasing from, or selling to, the estate of a bankrupt ? If so, who ? (*Chartered Accountants.*)

98. When is the public examination of a debtor held ? Who may question the debtor at the public examination ? If on his examination the Court is of opinion that the debtor is failing to disclose his affairs, what course is open to the Court ? (*Incorporated Accountants.*)

99. State briefly the order in which a trustee in bankruptcy must distribute the assets which come into his hands. (*Chartered Accountants.*)

100. At what intervals ought dividends to be declared and distributed by a trustee in bankruptcy? What are the rights, with respect to the receipt of dividends, of a creditor who has not proved his debt until after the declaration of the first dividend. (*Chartered Accountants.*)

101. Give the rule as to advertising before and on the declaration of a dividend by a trustee in bankruptcy. (*Chartered Accountants.*)

102. State the duties of a trustee in bankruptcy with respect to the declaration and distribution of dividends amongst those creditors who have proved their debts. What is the position of a creditor who has not proved his debt before the distribution of a dividend? When must a trustee declare a final dividend? (*Incorporated Accountants.*)

103. How must a trustee in bankruptcy deal with the surplus property of a bankrupt (if any) after payment of all the bankrupt's debts? (*Incorporated Accountants.*)

104. A bankrupt wishes to obtain his discharge. State shortly (*a*) the steps he must take to obtain such an order, and (*b*) the effect of the order when obtained. (*Incorporated Accountants.*)

105. When is the Court bound to refuse or to suspend the discharge of a bankrupt? (*Royal Society Arts.*)

106. In what circumstances and by whom may a trustee in bankruptcy be removed from his office? What provision is made by statute for filling a vacancy in the office of a trustee in bankruptcy? (*Chartered Accountants*)

107. In relation to bankruptcy or company law, explain the terms:—Quorum, proxy, secured creditor, disclaimer, private company, extraordinary resolution, contributory, a floating charge, misfeasance, set-off. (*Incorporated Accountants.*)

108. In relation to company or bankruptcy law, write very short notes upon: Committee of inspection, provisional liquidator, affidavit of no receipts, record book, composition or scheme, disclaimer. (*Incorporated Accountants.*)

109. Set out the steps in a bankruptcy between the receiving order and adjudication. (*Chartered Accountants.*)

110. Give a short account of bankruptcy proceedings from the time when they are started until the discharge of the bankrupt. (*Chartered Institute Secretaries*)

111. Prepare A B's Statement of Affairs from the following particulars: Assets: Cash, £7; Household Furniture, valued at £50; Sundry Debtors (Good, £50, Doubtful, £600, estimated to realise £300), £1,500, Investments (*estimated to realise* £493), £400. Liabilities · Debts—Fully Secured (security expected to realise £1,600), £1,000, Partly Secured (security expected to realise £2,500), £3,000, Unsecured Creditors, £1,800; Last Quarter's Rent, £50, Last Month's Salaries, £100.

The excess of assets over liabilities on January 1st, the last occasion when his books were balanced, was £500 A B attributes his insolvency to loss on trading, and places his household expenses since January 1st at £350 Show the dividend which may be expected by the creditors after allowing for £100 costs. (*Central Association Accountants.*)

112. What is the position of an undischarged bankrupt as regards obtaining credit and engaging in trade? (*Chartered Accountants.*)

113. Explain carefully the position of a bankrupt as to property acquired by him after his bankruptcy, and (*a*) before his discharge, (*b*) after his discharge (*Incorporated Accountants.*)

114. X was adjudicated bankrupt three years ago, but the trustee has not yet wound up the estate, and it is thought desirable to remove him.

What steps should be taken by the creditors? (*Central Association Accountants*)

115. State, in sequence and detail, the proceedings in bankruptcy from and after the making of the receiving order up to adjudication. What procedure must the debtor follow if he desires to offer a composition or scheme of arrangement? (*Incorporated Accountants.*)

116. To what extent (if any) can the trustee (*a*) make an allowance to the bankrupt for the support of himself and family; (*b*) enter into contracts on behalf of the bankrupt? (*Central Association Accountants.*)

117. Smith, Brown & Robinson fail, and you are appointed trustee in the bankruptcy. After payment of all costs and expenses and preferential claims, the position is thus:—

	Allowed Creditors' Claims £	Amount available for Dividend £
Smith, Brown & Robinson ..	9,500	2,500
Smith's Private Estate	750	1,000
Brown's Private Estate	500	250
Robinson's Private Estate ..	6,000	7,500

State the dividends paid respectively in each separate estate and in the joint estate (*Chartered Accountants.*)

118. Samuel Hobson, in business in the City, finds himself insolvent. From the various books and papers in his possession the following particulars as to his financial position are forthcoming. Prepare the Statement of Affairs for submission to his creditors and a Deficiency Account in the ordinary form.

Sundry Debtors (Good, £1,280; Doubtful, £2,800, estimated to produce £1,000; Bad, £700), £4,780; Sundry Freehold Houses, etc. (estimated to produce £2,000), £3,300, Shares: 1,000 Ordinary Shares in the Cable Telegraph Company, valued at par, £1,000; Mining and Railway Shares (2,500 are held as security by partly secured creditors and the balance by fully secured creditors), £9,450, Loss through the unsuccessful defence of an action at law, £5,420; Business Expenses, £3,200, Creditors: Unsecured, £16,740; Partly Secured, £5,420; Fully Secured, £3,110; Preferential claims for Salaries and Rent, £500; Private Drawings, £1,200; Samuel Hobson Capital Account, £3,800; Cash at Bank, £420, Bills Receivable, good, £800. (*London Chamber Commerce*)

119. James Micawber became bankrupt. From the following particulars prepare his Statement of Affairs and Deficiency Account· Unsecured Creditors Trade Debts, £8,500, Household Debts, £160. Trading Profits and Losses: First Year Profit, £2,000; Second Year, Loss, £1,000; Third Year, Loss, £600; Fourth Year, Profit, £300; Fifth Year, Loss, £2,300. Yearly Drawings, £800; Fully Secured Creditors (holding securities estimated to produce £10,000), £7,000; Liability on Bills Discounted (of which £100 is expected to rank), £1,060; Creditors for Rent, £150; Creditors for Rates, £30; Book Debts (Good, £1,100; Doubtful, £1,000, expected to produce [illegible]; Bad, £180), £1,880, Bills Receivable, good, £650; Cash at Bank and in hand, £15; Stock (estimated to produce £1,750), £2,100; Capital at commencement of first year, £7,483; Household Furniture (estimated to produce £550), £700; Office Furniture (estimated to produce £100), £168. (*Central Association Accountants.*)

120. Prepare from the undermentioned particulars, as on December 31st, a Statement of Affairs, in the prescribed form, to present to a meeting of the creditors of S. Brook: Furniture and Fittings, £250, valued at £100; Cash at Bank (Current Account), £10, Cash in hand, £4; Sundry Debtors, £2,500 (Good, £1,000; Doubtful, £1,000, valued at £500; Bad, £500, valued at nil); Bills of Exchange, £300, valued at £100; Stock-in-Trade valued at £950, less 20 %; Household Furniture, valued at £850; Life Policy for £1,500 (surrender value, £550), held by the Bank as security for loan; 500 fully paid shares of £1 each, valued at par, in the Blankshire Biograph Company, Ltd., held as security by R. Brown, Trade Creditors, unsecured,

£3,950 : Loan from Bankers, £500 (secured as above) ; Loan from R. Brown, £600 (secured as above), Rent due, £150 ; Rates, £25 ; Wages (preferential) £10. (*Royal Society Arts.*)

121. A business carried on under the style of Wood and Smith finds itself in difficulties, and instructs you to prepare a Statement of Affairs for submission to a private meeting of the creditors

The following particulars are obtained from the books, as at February 1st: Unsecured Creditors, £23,000 5s 6d., Loan from A, £2,000 ; Creditors partly secured, £4,600 (estimated value of security, £4,000) ; Preferential Claims, £240 12s. 6d ; Stock-in-Trade, £1,500 8s. ; Cash at Bank, £270 14s. 2d. ; Cash in hand, £65 4s. 10d. ; Fixtures, £400, Debtors : Good, £820 ; Bad, £72 15s 9d. ; Doubtful, £41 5s.

As regards the separate estates, Wood had no creditors nor assets, and Smith was a limited partner with £1,000 in the business With respect to the loan A had lent the £2,000 without security and under an arrangement whereby he was to receive interest varying with the profits. (*Incorporated Accountants.*)

122. Draw up in due form (putting in £ only) a Statement of Affairs for a meeting of creditors, showing a deficiency, and including : Liabilities on Bills Receivable and Payable, running, some of which will, and some of which will not, rank for dividend ; Creditors, unsecured, on acceptances, and on open accounts ; Debtors, good, doubtful, bad ; Stock, Leases, and other property, showing cost and estimated realisation of same ; Preferential Creditors, Creditors fully and partly secured, etc. (*Chartered Accountants.*)

123. Henry Jones filed his petition in bankruptcy on June 30th. His books showed the following balances :—

	£	£
Cash in hand	10	
Fixtures and Fittings (estimated to produce £80)	250	
Stock-in-Trade (estimated to produce £1,200) ..	1,800	
Sundry Creditors: Open Accounts		2,000
Sundry Creditors : Bills Payable		2,200
Sundry Debtors	5,000	
(Good, £1,000 ; Doubtful, £2,000, estimated at 50% ; Bad, £2,000)		
Bank Overdraft		1,200
Capital		1,660
	£7,060	£7,060

Liability on bills discounted, £500, £100 expected to rank. His household furniture, etc., was valued at £250. He owned the house he lived in —it was valued at £750—and he had a mortgage on it of £600 at 4 %. Interest paid to December 31st previous. Preferential creditors amounted to £35 (included in Sundry Creditors), and £15 for rates on his house.

Prepare a Statement of Affairs. (*Chartered Accountants*)

124. Jones, a trader, finding that owing to his liabilities he was unable to successfully carry on his business, executed a deed of assignment on June 30th in favour of his creditors, under which the creditors agreed to accept 1s. in the £ in full satisfaction of their debts. Brown, the largest creditor (his debt amounting to £1,000) arranged with Jones to take over the business and to pay in £300 in cash, in order to provide sufficient to pay the 1s. in the £ to the creditors, other than himself, and to furnish the necessary working capital for carrying on the business, and a legal agreement was, in due course, entered into between Brown and Jones whereby it was agreed that Brown should carry on the business until such time as Brown should from profits earned, have recouped himself his old debt of £1,000 and the £300 advanced by him to Jones, together with the further sums it might be necessary for him to pay in, in order to carry on the business. Jones was to manage the business during that time at a salary of £1 10s. a week and 5 % commission on the net profits. When the profits had reached the amount necessary to recoup Brown for his original debt and subsequent

advances, it was agreed that the business should revert to Jones. The creditors on June 30th, including Brown, amounted to £4,000; the debtors, which were all presumed to be good, to £500; the Stock was valued at £200, and the Furniture and Fixtures at £20. Make the Journal entries necessary for opening the new books for Brown, as on June 30th. Presuming that, on December 31st, Brown's books showed creditors of £80 (not including Jones's commission for the half-year), Debtors of £700, Furniture and Fixtures, after additions and depreciation had been taken into consideration, of £25; and Cash at the Bank and in hand, £200, draw Brown's Balance Sheet as on that date, taking the Stock at a valuation of £150 It is necessary, in accordance with the terms of the agreement, for the Balance Sheet to show the amount then due to Brown (*Royal Society Arts.*)

125. A finds, by the following summary of assets and liabilities of his business, that he is insolvent; and on October 15th files his own petition in bankruptcy. Prepare his Statement of Affairs for presentation to his creditors

The Bank's overdraft is secured by the deposit of deeds representing his freehold property (valued for the purpose of the Statement at £6,000), and dock warrants for Stock of the value of £2,383 10s. 10d.

W. Smith's loan is secured by an assignment of a policy on A's life valued at £100

There are contingent liabilities on bills discounted amounting to £589 17s. 2d, of which the sum of £229 13s 5d is expected to rank

Of the Book Debts, A states that £144 are bad and £365 doubtful; he estimates the value of the latter at £178.

Of the Bills Receivable, he estimates that the sum of £283 3s. 7d. is bad

A has private debts, amounting to £389 5s. 3d., and has private assets consisting of the above-named policy and household furniture valued at £585

SUMMARY OF ASSETS AND LIABILITIES.

Liabilities.	£	s	d.	Assets.	£	s.	d.
Sundry Creditors .	23,598	7	6	Cash in hand	29	2	7
Bank Loan .. .	6,897	3	6	Petty Cash in hand	2	13	9
W. Smith, Loan ..	589	2	6	Stock at cost ..	9,852	8	7
H. Jones, nine months' rent to September 29th ..	150	0	0	Fixtures and Fittings	329	7	2
				Office Furniture ..	262	8	0
				Horses and Carts ..	682	5	0
Rates, six months' to March 31st .. .	32	3	6	Sundry Debtors ..	5,289	3	5
				Bills Receivable .	4,283	3	7
				Freehold Property	6,589	2	7
	£31,266	17	0		£27,319	14	8

(*Chartered Accountants.*)

126. A trustee of a bankrupt estate, with liabilities of £18,000, has completed his realisation of the estate, and prepares to close the matter. His receipts have been: From Stock-in-Trade, £1,250; Book Debts, £3,100; Jewellery Pledged, £700; Trading, £7,000, Household Furniture, £450; Freehold Buildings, £3,000. His payments have been: Costs of Petition, £40; Auctioneer's Costs, £180; Shorthand Writers' Charges, £15; Trading Payments, £6,250; Mortgage on Freehold, £2,000; Board of Trade Fees, £80; Notices in *Gazette*, etc, £5; To redeem Jewellery, £400.

The Committee allow the remuneration of the trustee at a commission of 5 % on assets realised and 3 % on assets distributed. Without providing for further payments, you are required to write up the Estate Cash Book, showing the final close of the estate. You must assume that all items have been received from or paid to Bank, but analysis columns may be dispensed with. (*Incorporated Accountants.*)

127. A receiving order was made against a debtor, September 22nd,

The first meeting of creditors was held October 5th, adjudication decided, and trustee appointed with Committee of Inspection. The Committee was empowered to fix the trustee's remuneration The trustee did not submit his accounts for audit by the Board of Trade until July 5th following, when he sent in: Affidavit verifying the Trustee's Accounts, Record Book, Estate Cash Book, Vouchers Nos 1 to 6 inclusive.

. The Record Book, apart from entries made by the Official Receiver, only contained the following:—"Minutes of a Meeting of the Committee of Inspection, November 1st: That the Trustee charge his guarantee premium against the Estate. That his remuneration be 5 % on realisations and 5 % on the sum distributed in dividends." "Minutes of a Meeting of the Committee of Inspection, July 4th: That the Minutes of the last Meeting be approved and signed That the Cash Book be signed as audited by the Chairman."

The Estate Cash Book contained the following entries, following a memorandum that £5 Deposit on Petition and £3 10s Cash in hands of Debtor, had been used by the Official Receiver for sundry disbursements:—

19		£ s. d.
Oct 11		
Sale of Debtor's gold watch, chain, diamond ring, and diamond pin, to his brother		10 0 0
Oct. 30		
Sale of 1,000 fully paid shares in the Kentucky Gold Mine Co., Ltd, at 1s. 3d. each, as per Broker's Contract. ..	£62 10 0	
Less— Commission 125s, Stamp .. 1s.	6 6 0	
		56 4 0
Nov 8.		
Sale by Auction of Debtor's household furniture . ..	£278 1 10	
Less— Comn. and charges	24 5 0	
		253 16 10
		£320 0 10

19	£ s d	£ s. d.
Nov. 1		
Paid to Bankruptcy Estates Account ..		56 4 0
Nov 10		
Law fees as to Licence for holding Auction at Debtor's house ..	8 6 2	
Nov 12		
Landlord, rent of premises for quarter ending Dec. 25, 1909	30 0 0	
Nov. 15		
Allowance to Debtor ..	10 0 0	
Nov 15.		
Trustee's remuneration 5 % on realisation .	16 0 0	
Nov 15.		
Preferential payment, 6 weeks' wages to Chauffeur, to Oct 5, 1909	18 0 0	
Nov 15		
Premium on Bond .	5 0 0	
Dec 15.		
Paid to Bankruptcy Estates Account .		150 0 0
1910.		
June 30.		
Trustee's Petty Disbursements	17 18 1	
June 30.		
Balance in hand ..	8 12 7	
	£113 16 10	£206 4 0

Audited and found correct. (*Signed*) A. C. REDDITOR,
July 4, 19.. *Chairman.*

The books and documents were returned by the Board of Trade as unsatisfactory.

State shortly what items might be called in question, what further documents and information would be required, and what consequences might ensue from undue detention of moneys. (*Chartered Accountants*)

128. A trader files his petition in bankruptcy on June 30, 1910, and you are instructed to prepare his Statement of Affairs. The information you are able to obtain as to his position is as follows:—

The Stock-in-Trade at cost is £7,200, of which £600 worth is in the hands of a creditor for £1,000, who is entitled to exercise a lien; Book Debts: Good, £9,750, Doubtful, £120, worth 6s. 8d in the £, Bad, £150, Fixtures and Fittings (after depreciation), £230; Cash in hand, £10; Bills Receivable, £1,100 (held by Bankers against overdraft of £4,000, the balance of which is secured by a second charge on debtor's freehold property and by the guarantee of his brother); Customers' bills under discount, £1,500, of which £200 is ascertained to be bad, and £100 is doubtful;

Freehold Property, £3,000, subject to a first mortgage of £2,000. The Unsecured Creditors amount to £29,000, in addition to claims for Rates, Taxes and Wages amounting to £240. The Stock-in-Trade and the Book Debts (outside the bills) are estimated to be worth 75 % of their face value, and the freehold property, which cost £2,800, is valued at £2,200. Subject to the modifications above stated, the assets are worth their book values.

You learn that the debtor had a surplus of assets of £5,000 on January 1, 1908, since when he has withdrawn £3,000 per annum in equal monthly instalments His profits for year ended December 31, 1908, were £2,100, and for 1909, £420, since which time he has not made up his books.

From these details you are required to prepare as nearly as may be in statutory form :—(*a*) A Statement of Affairs ; (*b*) a Deficiency Account (*Incorporated Accountants*)

129. Prepare an imaginary Deficiency Account for a wholesale trader, who commenced business four years ago with a capital of £2,500, and made £100 profit during the first two years, his present liabilities being £17,600 and assets estimated to realise £10,300. The imaginary items of the account must not exceed twelve in number, and should be representative of items usually found in such accounts. (*Chartered Accountants*)

130. From the following figures prepare Statement of Affairs and Deficiency Account as at December 31st. Assume that the Stock realises two-thirds of its value, the Fixtures one-half, the Shares par, and the Doubtful Debts one-third. On January 1st, two years ago, the debtor commenced business with a capital of £3,175. His profits for the first two years amounted to £2,027 10s. 6d , and his drawings were £1,500 a year.

Cash, £115 10s. 6d. ; Stock-in-Trade, £500 , Debtors : Good, £3,500 ; Doubtful, £900 ; Bad, £750 ; Fixtures and Fittings, £282 ; Shares, £250 , Creditors, unsecured (including £950 for wife), £6,950 ; Creditors, secured, £1,250 ; Value of securities held by creditors, £1,750 ; Preferential Claims for Rent, Rates, and Taxes, £95. (*Incorporated Accountants.*)

131. At a meeting of the creditors of A, trading under the style of A, B & Co., the following statement was submitted —

LIABILITIES.	£	£	ASSETS.	£
Unsecured Creditors—			Book Debts, £5,270, estimated to realise	4,500
Trade	8,560		Furniture and Fittings, £300, estimated to realise ..	200
Loan from B ..	2,000	10,560	Shares, £3,000, estimated to realise	100
Secured Creditors	1,000		Stock	1,500
Value of Security	1,500		Cash	70
	500		Surplus from security held by Creditors	500
Preferential Claims	220			6,870
			Less Preferential Creditors	220
				6,650
			Deficiency	3,910
		£10,560		£10,560

Upon discussion, it appeared that B (the cash creditor) having been a partner in the firm, had retired two years prior to the date of the meeting, receiving £3,000 for his interest in the business, of which sum £2,000 was left in the business as a loan at a minimum interest of 4 %, a higher rate on a sliding scale to be paid according to profits. No formal notice had been given of the retirement of B, and the creditors whose claims existed at the date of his retirement amount to £7,500. You are invited to state your criticism of the position as presented to the creditors. (*Incorporated Accountants.*)

132. The Statement of Affairs of an estate to be wound up under a deed of assignment is as follows:—Liabilities: Creditors Unsecured, £6,326; Creditors Fully Secured, £4,600 (value of security, £5,500); Creditors Partly Secured, £1,720 (value of security in a Life Policy for £2,000, £650); Preferential Creditors, £108. Assets: (1) Debtors, £2,200; (2) Stock, £600; (3) Plant and Fixtures, £600; (4) Property held by secured creditors, £5,500, less claims, £4,600; Life Policy as mentioned above. Assets Nos. 1, 2, and 3 realised at an abatement of 20 %, No. 4 realises £4,500; No. 5 in full. Prepare Trustee's Summary Account, deducting £230 for costs, and show the first and final dividend. (*Chartered Accountants.*)

133. A receiving order was made against A. Boot, on June 25th. The following are the balances of his books at that date:—

	£	£
Unsecured Creditors		3,940
Capital Account, A. Boot		700
J. Smith, Loan Account		564
W. Jopp, Loan Account		12,654
Stock	4,113	
Fixtures and Fittings	250	
H. Finlay (Rent one year)		350
H. Jones, Manager (£150 per annum)		100
Collector, Rates and Taxes		85
Cash in hand and at Branches	110	
Horses, Carts, etc.	251	
Bill Receivable	169	
Sundry Debtors	2,446	
Cash at Bank	356	
Freehold and other Property	5,000	
Policy of Insurance (Surrender Value)	1,778	
Profit and Loss	776	
Drawing Account, A. Boot	1,219	
Interest on Loans	1,925	
Contingent Liability on Bills Discounted, £358 not expected to rank		
	£18,393	£18,393

On January 1st previous, there was a surplus of assets of £700. J. Smith holds a first charge on the policy of insurance. W. Jopp holds a second charge thereon, and also a charge on the Freehold and Leasehold Property. The Stock, for the purposes of the Statement, is valued at £3,500. Of the Book Debts, £291 are doubtful, and are estimated to produce £100; £287 are bad. The loss on trading between January 1st and June 25th, was £776.

Make out the Statement of Affairs and the Deficiency Account in the forms required under the Act. (*Chartered Accountants.*)

134. Prepare a Statement of Affairs of Messrs. Lawson & Co. from the following:—Cash in hand, £10, Debtors: Good, £500, Bad, £50; Doubtful, £1,000, estimated to realise £750; Creditors Unsecured, £2,600; Creditors Partially Secured, £1,200 (estimated value of security, £800); Creditors Fully Secured, £1,900 (estimated value of security, £2,400); Landlord for Rent, £270, the yearly rent being £240; Works Manager for Salary, £150, his yearly salary being £360; Liabilities on Bills Discounted. £650, all of which are expected to be met on maturity; Stock-in-Trade, cost, £850, estimated to realise £180. There is a liability in respect of a contract which the debtors cannot complete, owing to the failure, amount unknown, but estimated at £300. Bills Receivable on hand, £75, estimated to produce £20. (*Chartered Accountants.*)

CHAPTER XI

THE DOUBLE-ACCOUNT SYSTEM

PARLIAMENTARY COMPANIES.

THE expressions "single" and "double" account systems refer not to systems of book-keeping but to methods of presenting accounts. In both cases the accounts are derived from books kept in double-entry form. The distinction between the two systems begins and ends with the manner of preparing the final accounts. The basic principle regulating the preparation of a single-account Balance Sheet is the necessity to provide for any wastage of capital out of revenue in order to ascertain the true profits for the period. The double-account Balance Sheet draws sharp distinctions between revenue and capital, and, from the strictly theoretical point of view, disregards direct provision for capital waste, provided that all renewals, repairs, and maintenance have been charged against revenue.

It cannot be said, even in the case of companies whose accounts are prepared on the single-account method, that they are legally obliged in all cases to provide for capital wastage prior to the division of profits The view of the legislature with regard to what may be conveniently called double-account companies appears to have been that the realisation of the assets, and the consequent ascertainment of any wastage which may have occurred, of companies possessing their degree of permanence was so remote that it was unnecessary to make any direct provision in the Balance Sheet for the depreciation of the assets. It must, however, be remembered that provision for such waste is sanctioned in some cases, and enforced in others, by the statutory form of the accounts. It must also be borne in mind that where the statutory form of the accounts does not appear to anticipate provision for wastage, such provision is, nevertheless, very frequently made. The student will be wise, therefore, to refrain from condemning the double-account system, as he frequently does, on the ground that no deductions for depreciation are possible from the asset accounts.

The double-account system is generally applied to public utility undertakings of a permanent nature, e.g. railways, gas and electric light companies, and it has the advantage of clearly setting out the expenditure of capital upon fixed assets. But this convenience is apt to blind its advocates to the inherent defect that such assets may not all be of a permanent kind, however thoroughly they

may be maintained ; and that some of them may, and frequently do, become valueless, or may even disappear altogether. Many assets are incapable of being maintained in perfect condition out of revenue. Even if they do not wear out quickly, in the end wastage is inevitable, not to mention the fact that improvements and fresh inventions are bound, sooner or later, to render them obsolete That being so, it is unsound to attempt to justify the retention of capital expenditure in the accounts at cost, without reserving for such wastage. Because of this, many parliamentary companies create general and special reserves out of revenue

Origin of Double-Account System.—The double-account system is of statutory origin, and is compulsory in the case of some parliamentary companies, such as railway, tramway, and gas companies ; and is adopted voluntarily by other public undertakings. The system was first prescribed under the *Regulation of Railways Act*, 1868, and was subsequently applied to certain other public enterprises, which were considered to have subscribed their capital for the creation of a specific and permanent undertaking.

Parliamentary Companies.—The term "parliamentary company" is commonly applied to a company created and incorporated by a special Act of Parliament, and which is governed by the provisions of the particular Act under which it was formed. For convenience and uniformity, certain "Companies Clauses" Acts have been passed from time to time. These Acts contain regulations of a general kind, similar to those contained in the Articles of Association of a limited company, and relate to such matters as borrowing powers, voting powers, the transfer of shares, audit of accounts, and so forth. It is usual for parliamentary companies to adopt, in whole or in part, the provisions of one or more of the Clauses Acts, and, so far as they may be adopted, they form an essential part of the company's special Act, provided they are not inconsistent with the Act.

The principal Clauses Acts are : *The Companies Clauses Acts of* 1845, 1863, 1869, 1888, *and* 1889 ; *The Land Clauses Consolidation Acts of* 1845, 1860, 1869–1883 ; *The Gasworks Clauses Acts of* 1847 *and* 1871 ; *The Railway Clauses Acts of* 1845 *and* 1863 ; *Harbours, Docks and Piers Clauses Act*, 1847 , *The Tramways Act*, 1870 (Parts II and III) ; *The Waterworks Clauses Acts of* 1847 *and* 1863 ; *The Electric Lighting Clauses Act*, 1899.

S. 65 of the *Companies Clauses Consolidation Act*, 1845, enacts that " all the money raised by the company . . . shall be applied . . . in carrying the purposes of the company into execution." This section appears to have been very literally kept in view by the legislature, when devising the form of the statutory accounts.

The ordinary limited company is subject always to the Companies Act. Any provisions contained in the Articles or Memorandum of Association of such companies which conflict with the Companies Act are *ultra vires* , whereas the special Act under which a parliamentary company works is itself part of the law of the land.

Parliamentary companies differ in some respects from the ordinary limited company. Some of these differences arise from the public, or semi-public, nature of their business, and are mentioned later; such, for example, as the limitation of dividends in gas and water companies, the "sliding" scale of dividends adopted by some gas and electric lighting companies, the obligation to offer fresh issues of capital by means of public auction, and the power to issue share capital at a discount, the latter a privilege which, it will be remembered, is allowed to non-parliamentary companies only under the severe restrictions of S. 47 of the *Companies Act*, 1929

The Statutory Forms of Account.—The business carried on by most parliamentary companies is in the nature of a monopoly; and the legislature, with this fact in view, was apparently of the opinion that the public were entitled to be assured that the capital raised had been properly applied in constructing and equipping the undertaking; and so sharp distinctions have been drawn in the statutory forms of account between receipts and payments on capital account and receipts and payments on revenue account, the question of the present value of the fixed assets being ignored. In their anxiety to achieve this object, the authorities appear to have rather lost sight of the fact that, if the statutory accounts were adhered to strictly, they were inaugurating a new system of ascertaining profits. But no system of accounting can really affect the economic demands of any commercial undertaking.

A double-account Balance Sheet is divided into two parts. The first, or capital section, deals on the credit side with the actual cash produced by the capital issued and raised, either by subscription or loan; and, on the debit side, with the *fixed* assets in acquiring which the capital has been expended The second section assumes the form of a general Balance Sheet, to which the balance of the first section is carried, and in which the *floating* assets and liabilities, incidental to the conduct of the business, together with any reserves there may be, and the balance of the revenue account, are set out in statutory order.

The balance of the first section of the Balance Sheet represents either the amount of capital which remains in liquid form, or the extent to which debt has been incurred, or the floating assets have been encroached upon, in order to meet the expenditure upon fixed assets. The first section of the Balance Sheet is practically a cash statement, showing how the whole of the money raised for the purpose of the undertaking has been expended, and therefore no provision for wastage or depreciation can be deducted from the cost price of the fixed assets, as they can in the single-account Balance Sheet.

All the points mentioned above are exemplified in the Balance Sheet of one of the leading Railway Companies, which appears at pp. 682–3 and 686–8. These statements are in the form required by the First Schedule of the *Railway Companies (Accounts and Returns) Act*, 1911, which came into operation on January 1, 1913, and the Order issued in 1929. The first section of the Balance Sheet is headed "Receipts and expenditure upon Capital Account." On the

credit side of the account all capital moneys received by the issue of shares, debentures, loans, premiums, etc., are set out in summarised form and totalled; and, on the debit side, particulars are given of the assets which have been acquired by means of the capital receipts. The shareholder is thus able to satisfy himself that the paid-up capital has been expended upon the acquisition, equipment or extension of the undertaking for which it was subscribed. The balance, as between receipts and expenditure, represents the surplus or deficiency, as the case may be, between the amount subscribed and the amount expended upon capital account (in this instance a surplus), and is carried to the second section of the account. Incidentally, it may be noted that the assets and liabilities appear on the reverse sides to those ordinarily adopted, a divergence from common usage to which the authorities appear to be partial. The first part of the Balance Sheet is thus in true "Account" form as distinct from the recognised Balance Sheet form.

The form of all double-account Balance Sheets is practically identical with the account referred to, allowing, of course, for natural variations in the character of the expenditure. The only exception of importance occurs in the Balance Sheet of electric light companies There the *total* of the capital receipts and expenditure is carried to the general Balance Sheet, and not the balance only.

Computation of Profits.—It is often contended—in text-books, at any rate—that the main distinction between the single and double-account systems lies in the difference of principle upon which profits are computed. It is said that, whereas under the single-account system all capital wastage is made good prior to the ascertainment of profits, the double-account system regards as divisible profit all excess of income over revenue, after provision has been made for the proper maintenance of the assets. This opinion may find support from the construction of the statutory forms. But in actual practice they are not adhered to with literal strictness, for the majority of companies employing the system make a practice of creating reasonable reserves and apportionments prior to dividing profits. Illustrations of this practice will be found in the detailed explanations of the accounts occurring later in this chapter. The statement is also not infrequently made that when once an asset has been acquired and is scheduled in the first section of a double-account Balance Sheet, it remains there for ever at its original cost. To a certain extent this criticism is true, but here again it must be condemned as too sweeping, as will be explained later. Further, it is often said, but inaccurately, that all repairs and replacements are charged against current revenue, as and when they occur. Much expenditure under these headings is provided for by regular charges to a repairs or renewal fund, in order that such expenses may be averaged as between one period and another. In the case of gas and electric lighting companies, the formation of such funds is specifically provided for

But the fact remains that under the two systems the method of ascertaining profits is frequently divergent. The form of the double-account Balance Sheet appears to prohibit the periodical

writing down of the assets on the face of the account, as is the common practice under the single-account system. It must not be assumed, however, that obsolescence and wear and tear are not taken into account by companies which employ the double-account system. The fact is that, in many cases, large reserve funds exist to meet such wastage. An illustration of prudent provision of this kind will be found in the Railway Company's Balance Sheet (see p. 688), where reserves appear amounting to over £10,000,000

While the apparent intention of the legislature is that the capital assets shall not be revalued or written down from time to time, provision is made in the statutory accounts dealing with the maintenance of such assets for separate entries of transfers to or from Depreciation Funds and Suspense Accounts, and, in the Balance Sheet, all such Depreciation Funds and Suspense Accounts are required to be separately shown. While this provision for depreciation is not compulsory, such reserves are actually made by prudent Boards of Directors.

Probably the most pertinent objection that can be brought against the double-account method is that expenditure which represents dead capital and is unrepresented by any tangible assets (such as abandoned property, parliamentary costs, preliminary expenses, etc.) is apt to be lost sight of altogether.

Although there is much to be said for several of the criticisms to which reference has been made, students are apt to accept them too literally, and to ignore the fact that they need qualification when applied to many undertakings employing the double-account system.

Railway Companies.

Prior to the *Railway Companies (Accounts and Returns) Act*, 1911, the accounts of railways were published half-yearly. Under that Act the publication of accounts is only required once a year. Although relieved of the necessity of preparing half-yearly accounts, the directors have power, under the Act, to pay interim dividends on account of the first half of the year, if the profits of the company appear to be sufficient to justify them. Clause 1 (1) of the Act states that: "Every railway company shall annually prepare accounts and returns in accordance with the forms set out in the first schedule to this Act, and shall submit their accounts to their auditors in that form." The present form of the accounts is largely the result of the work of a committee of railway accountants appointed in 1906, and may be said to represent the last word in double-account construction

Typical Set of Railway Accounts.—At pp. 682–8 will be found the published accounts of a leading British Railway Company. It has not been considered necessary to reproduce the whole of the statements and abstracts obligatory under the Act of 1911. Some of these statements are statistical, and others are merely schedules analysing and elaborating some of the figures which appear in the accounts proper. But the state-

ments reproduced form a complete set of accounts proper, showing the financial result of the year's work and the position of the company at its conclusion.

The statements which precede No. 4 statement in the published accounts, and which elaborate the receipts on capital account, are :—

No. 1 (a). Nominal Capital, authorised and created by the Company

This is the usual statement common to all the double-account companies, and gives a summary of the various Acts of Parliament obtained by the company, and the extent to which the capital (shares, stock, loans and debentures) authorised thereunder has been created. It does not show the actual issues of such capital. These are set out in Statement No 2. The stocks issued by railways are usually more varied and numerous than is the case with commercial companies. They are known under many names, but are usually divided into various classes of guaranteed or preference stocks, bearing fixed rates of interest, and ordinary (preferred and deferred) stocks, entitled to such portion of the remaining profits as it may be deemed advisable to distribute.

No 1 (b). Nominal Capital authorised and created by the Company, jointly with some other Company.

The information contained in this statement is similar to that given in (a) above.

No. 1 (c). Nominal Capital authorised and created by some other Company on which the Company either jointly or separately guarantees fixed dividends.

This is capital, the fixed interest upon which may become a liability of the guaranteeing company.

No. 2. Share Capital and Stock created, as per Statement No. 1 (a), showing the proportion issued.

This statement shows the various stocks (other than debentures and loans) in the order of their creation, and the extent, if any, to which each class is entitled to a fixed or preferential dividend. It also shows the amount created and the amount issued to the public; any conversions of stock into stock of some other denomination; the net amount on which dividends are payable, the calls in arrear, and so on. Premiums received and discounts allowed on capital issues are not shown in this statement, but in No. 4.

No. 3. Capital raised by Loans and Debenture Stock.

This statement gives particulars of the capital raised by loans, debentures, rent charges, etc, with particulars of the interest payable on each issue. As a general rule, the borrowing powers cannot be exercised until at least one-half of the ordinary share capital has been paid up. It may be noted that the issues of capital shown in Nos 2 and 3 form the first two items on the credit side of No. 4 statement reproduced at pp. 682–3.

We now come to :—

No. 4. Receipts and Expenditure on Capital Account.

This appears at pp. 682–3. It is the first account of the sequence of the accounts proper. The statement shows, on the one side, the total receipts on capital account from all sources, and, on the other side, the various assets acquired by means of the capital raised. The first cost of all fixed assets acquired is charged in this account. The methods by which depreciations of, or deductions from, these asset accounts are dealt with will be referred to later. It will be noted that a break is made in the statement in order to show the total expenditure upon railway traction proper, as compared with the expenditure incurred upon other forms of traction, or upon the varied subsidiary enterprises of a modern railway system. On the credit side the receipts from the issues of capital (Statements Nos. 2 and 3) are shown, and in addition the premiums and discounts on such issues are detailed separately. The balance of this statement is carried to the general balance sheet. If the receipts are in excess of the expenditure, the balance appears as a liability; but if the expenditure is in excess of the receipts, the balance appears as an asset.

The expenditure on capital account is further elaborated in :—

No. 4 (a). Subscriptions to other Companies.

This statement gives the detail of the third item from the bottom on the debit side of No 4 statement, and contains particulars of any sums invested in other undertakings under statutory authority.

No. 5. Details of Capital Expenditure for Year.

This information is set out in considerable detail in accordance with the Act, and agrees, in total, with the middle column of No. 4 statement. It is complementary to No. 4 statement and amplifies the details of the capital expenditure for the year.

The earnings and expenditure on revenue account are elaborated in :—

No. 10. Receipts and Expenditure in respect of Railway Working.

This account is confined to the working of the railway proper, and gives details, on the one side, of the earnings of the railway from passengers, mails, parcels, goods, etc., and, on the other side, of the cost of working the railway and maintaining the lines and rolling stock.

The actual expenditure upon maintenance is the basis of the figures appearing in the statement for maintenance and renewal, but, in some cases, they will need adjustment, by means of appropriate depreciation funds, in order that the accounts of the year may bear a just proportion of the wear and tear applicable to the period. The estimate of wastage is based upon past experience and is agreed by the accountant and the engineer. If the actual outlay upon maintenance falls short of the sum estimated as necessary for the period, a further charge should be

made and carried to the relative depreciation fund. Excess of expenditure under any heading may be adjusted in the same way.

Abstracts of the principal expenditure accounts denoted by letters in the margin of the statement are set out in detail. In the abstracts for maintenance and renewals the transfers to and from depreciation funds are shown separately. In all the statements and abstracts the corresponding figures for the previous year are given for purposes of comparison.

Nos. 11 *to* 16 *inclusive.*

These statements give in detail the results of working the various subsidiary businesses carried on by the company, e.g. steamboats and hotels. As the capital invested in these businesses is shown separately in Account No. 4, their direct earnings in relation to the capital employed can be readily ascertained, but it will be recognised that the indirect earnings of such businesses as "feeders" of the railway are included in the railway earnings. The Irish steamers of the company doubtless attract traffic to the railway, the earnings from which are included in the railway working results.

No. 8. *Revenue Receipts and Expenditure of the whole undertaking* (see p. 686).

The gross receipts and expenditure, and the net receipts, as shown in separate statements Nos. 10–16, are summarised in this statement; and the net receipts from miscellaneous sources, such as rents, dividends, and bank interest, not covered by special statements, are then added The resultant figure represents the total net income.

No. 9. *Proposed appropriation of Net Income* (see p. 687).

This is the appropriation section of the revenue account, and shows the total amount of net revenue, the deductions for debenture interest and other fixed charges, and the manner in which it is proposed to appropriate the balance.

It will be noted that these statements follow in the order stated, and contain comprehensive details of the revenue receipts and expenditure and the proposed appropriation of the resulting profits.

No. 9 (*a*). *Interim Dividends Paid.*

This is an additional statement giving particulars of the dividends paid during the year. The total of this statement appears as a separate item in the General Balance Sheet.

No. 17. *Electric Power and Light Account.*

This is more in the nature of a statistical return. It shows the number of units and the cost of the electric current generated by the company for power and lighting purposes. The electric current manufactured is almost entirely charged out against the various other departments by which it is consumed, but the account cannot be reconciled with the expenditure accounts as published.

No. 18. The General Balance Sheet.

This discloses the financial position of the company. It will be noted that in these accounts the transactions on capital account have resulted in an excess of capital expenditure over capital receipts of £9,489,900 3s. 2d, as shown in No. 4 statement. In accordance with the principles of the double-account system, the excess appears as an asset in the general balance sheet.

As all the fixed assets of the railway have been dealt with in No. 4 statement, there only remain the floating assets, such as cash, stores, book debts, and so on, for inclusion in the general Balance Sheet. Under the double-account system, floating assets are not chargeable against capital receipts, as they are of a fluctuating nature. In effect, the company has provided out of its reserves, renewal funds and undivided profits not only a large proportion of the cost of its fixed capital assets, but the sum necessary to provide the floating assets.

Among the credit balances on the liabilities side of the general Balance Sheet appear the outstanding debts due to creditors of various classes, the various insurance, superannuation, provident and compensation funds, the balance of revenue available for dividends, and the general reserve and depreciation funds. Superannuation funds are contributed to by the company. Provident funds are usually staff funds placed for investment with the company The depreciation funds require a word of explanation, and should be carefully considered.

As a general rule, it may be assumed, except where one railway has been purchased by another, that the capital expenditure shown in a company's accounts represents the actual first cost of the undertaking, plus capital additions (e.g. a new station), less displacements (e.g a dismantled station). No additions are made to the expenditure for increment in *value*, nor are any deductions made for reduction in *value*, and the capital expenditure, therefore, represents cost. Whether or not the *cost* is less or greater than the *value* is not disclosed, but this point must be borne in mind. The term "depreciation" is generally considered to mean a permanent reduction in value, but, in railway accounts, a Depreciation Fund usually means a Renewal or Maintenance Fund, i.e. a fund established to meet the future cost of renewing plant now in use and/or to provide for the cost of repairs not executed currently.

In the accounts of a railway company, the renewal of wasting assets is provided for by debiting the revenue account, and crediting an appropriate depreciation fund or reserve account, with an amount considered adequate to meet any waste that may have occurred. The provisions for wastage so made are left to accumulate from year to year In this way future commitments in respect of relaying the permanent way, rebuilding bridges, replacing rolling stock, or similar needs, are duly provided for, and the cost of such replacements is equalised as between one year and another. In the case of assets which it is not proposed to replace or retain at the end of their useful life, the

original cost is credited to capital expenditure account, and debited to the depreciation fund accumulated for that purpose; and, in this way, the asset is entirely written out of capital expenditure.

It will be noted that the statutory form of the accounts assumes the creation of reserve funds for various purposes, and provides for their disclosure in the general Balance Sheet. In most cases, similar reserves existed prior to the Act of 1911, but they frequently remained undisclosed under the old form of accounts.

In the statutory form of accounts now in use provision is made in the general Balance Sheet for the setting out of any suspense accounts there may be. Such accounts usually consist of deferred expenditure awaiting allocation, or of expenditure to be spread over a period of years.

Wasting Assets.—In order to illustrate the methods employed in connection with some types of wasting assets, let us assume that a railway company has purchased a motor char-à-banc at a cost of £1,000, and that it does not propose to replace this motor when worn out five years hence. The procedure would be as follows: Upon the purchase of the motor, the capital expenditure account would be debited with the original cost, viz. £1,000. Every year one-fifth of this cost, £200, would be debited against revenue through No. 8 statement ("Revenue, Receipts, and Expenditure of the Whole Undertaking"), and credited to a special depreciation account raised for that purpose. At the end of five years, when an amount equal to the original cost of the motor had been accumulated, the special depreciation fund would be closed by transfer to the capital expenditure account. The fact that the original cost of the char-à-banc had been eliminated from the capital expenditure account would be indicated by means of a credit entry, printed in italics, in No. 4 statement ("Receipts and Expenditure on Capital Account").

The above method is probably the most usual one, but the instalment will vary with the assumed life of the asset. Other methods are:—

(*a*) A fixed percentage applied to the diminishing value.

(*b*) A sinking fund allowing for (say) 4 % compound interest.

(*c*) A fixed "programme" by which the difference between the assumed annual wastage and the actual expenditure on repairs and renewals is set aside.

There is no uniformity of method, and a company may employ one method for one class of asset and another for a different class of asset.

An example of an item written out of capital in the manner described above is shown, in italics, at p. 682, i.e. "*Canals Cr. £3,875 16s. 0d.*," representing, in this case, probably a sale of surplus land.

That the principle of providing for wastage is recognised by railway companies is illustrated by reference to the general Balance Sheet at p. 688, where it will be seen that provision for

future renewals amounting to £8,265,910 has been accumulated, in addition to a general reserve fund of £2,000,000 for contingencies. It must be understood that the ordinary current renewals, for which no depreciation fund has been accumulated, are charged against revenue year by year, as and when they are incurred. The depreciation and reserve funds referred to above are in addition to the ordinary repairs and replacements charged against revenue, and are provided in recognition of the fact that wastage occurs in connection with assets which may not require immediate renewal. It must not be assumed that all railways adopt the same methods in similar circumstances. That would be unwarranted.

A question set at the Institute of Chartered Accountants' examination affords an illustration of divergent treatment of capital expenditure :—

"A railway station built fifty years ago at a cost of £50,000, having become inadequate to deal with the increased traffic, was rebuilt at a cost of £250,000. The materials of the old station were sold and realised £5,000. How should the matter be dealt with in the railway company's books ?"

The answer required by the examiner was to the following effect :—

"The company having ascertained that, owing to the increased cost of labour and materials, it would cost £75,000 exactly to replace the old station, would charge that sum, less the £5,000 realised on the old materials, or £70,000 net, to revenue. The remainder of the cost of the new station, viz. £180,000, would be capitalised. This treatment represents the actual policy adopted by one of the principal British railways. Such method of apportioning capital expenditure is not, however, by any mean universal. Other railways, including leading Dominion and Colonial railways, would charge the cost of the old station, £50,000, to revenue (to which would be credited the £5,000 realised), and the whole of the balance of the cost of the new station, £200,000, to capital."

In some cases, assets of a substantial nature, but with a short life, may be charged direct to revenue over a number of years. A gravel pit containing 50,000 tons of gravel is purchased for, say, £1,250, and the cost is charged to a suspense account. The cost of obtaining the gravel from the pit is charged to Gravel Pit Working Account, and this account is debited, and the suspense account is credited with 6d for each ton of gravel removed The actual work or works for which the gravel is used is debited, and the Gravel Pit Working Account is credited with the actual cost on a tonnage basis. The working account balances each year, except for stock in hand, and the suspense account is closed when the 50,000 tons have been obtained.

Other instances could be enumerated to illustrate the fact that the principles of railway accounting are not always identical and are influenced, to some extent at any rate, by the particular views of the management, and probably also by the financial exigencies of the moment.

Internal Income Accounts.

A railway company's earnings arise chiefly from the charges for conveyance of passengers, parcels, mails, goods, minerals, and live stock, and so the internal books and records are very different from those employed by a company whose income is mainly derived from the sale of goods. In a retail shop, for example, the cash takings can be closely verified by comparison with the selling value of the stock handled, but in the case of a railway other means must be adopted to ascertain that the receipts are duly brought into account. The methods of control may be briefly considered in connection with the conveyance of passengers and goods, which, in the main, are cash and credit transactions respectively. In each case the object of the railway accountant is to see that all receipts are brought into account *as they arise*, and not as paid; in other words, that there shall be a debit and a credit for each transaction.

Passenger Traffic.—In the case of passenger receipts, the debit is recorded from the sales of tickets. The accountant supplies, on requisition from a station, the tickets which it is anticipated will be required during a stated period. These are printed in separate numbered series for each station to which bookings are in operation, for each class of carriage and each type of ticket. When received by the station, the tickets are examined, agreed with the requisition, entered in the Ticket Stock Book, and the requisition is then receipted and returned to the accountant.

As an illustration, assume that station X receives on January 1st, 4,000 first-class single tickets to issue to station Y. The entry in the Ticket Stock Book would read :—

"Y" STATION, FIRST-CLASS SINGLE.

Date Received.	*Last Progressive Number*	*Quantity Received.*
8/10/19..	*4000*	*4,000*
1/1/19..	*8000*	*4,000*

A separate page is kept for each station, and each description of ticket is separately recorded, and a continuous record is shown of all supplies of each description.

The tickets required for immediate use are placed in the ticket tubes in the booking office, and as each ticket is sold the date of issue is impressed by a machine. As the bookings for each train are completed, a record is made in the Train Book of the bookings by that train (see p. 672).

The Train Book, in addition to recording the cash received, constitutes a valuable record of the issues of tickets, and is the basis upon which the *Monthly Passenger Return* is compiled. A specimen of this return is given at p. 673. This return, which is

TRAIN BOOK

Train	Stations.	Route.	Class and Description	Commencing Number	Closing Number.	Children	Non-issued	No of Passengers	Rate	Amount.			Total by each Train			Cash.		
										£	s	d	£	s.	d	£	s	d
9.15 a m.	*Y*	*Blanktown*	*1st*	*006*	*043*	√	√	*37*	*8s.*	*14*	*16*	*0*						
	Y	*Blanktown*	*1st Return*	*973*	*990*	√	√	*17*	*15s*	*12*	*15*	*0*						
	Etc	*Etc.*	*Etc*	*Etc*	*Etc*			*Etc.*	*Etc.*	*Etc.*								
	Etc	*Etc.*	*Etc.*	*Etc*	*Etc.*			*Etc.*	*Etc*	*Etc*								
										£143	*10*	*3*						

PERMANENT WAY DEPARTMENT JOURNAL.

Abstract of Permanent Way Department Expenditure. Year 19...

	January.									L F	February.									L F	Etc.
	£	s.	d	£	s	d	£	s.	d		£	s	d	£	s.	d.	£	s.	d.		
Maintenance of Way and Works :—																					
Superintendence																					
Salaries, etc.																					
Office Expenses																					
Repairs of Roads, Bridges, etc .—																					
(Details)																					
New Works in Progress :—																					
(Details)																					
Other Departments —																					
(Details)																					
Personal Accounts :—																					
(Details)																					
Credit Department Total . .						£	50,683	10	9	82											

RETURN OF PASSENGER TRAFFIC

At .... Station for Month ended .... day of ...., 19 ..

Tickets Issued		Stations. (To be written in order of Down Time Table.)	Classes	Total Children for Month.	Total Non-issued for Month	No. of Passengers by Each Class for the Month (Each Child's Ticket to Count as One Passenger)							Through Fare.	
						Single			Return			Total		
From	To					1	2	3	1	2	3		s	d.
		Brought forward												

RETURN OF PASSENGER TRAFFIC—*continued.*

Amount of Local Traffic and Local Proportion of Through Traffic														Amount of Clearing House Proportion of Through Traffic													
Local Fare or Proportion		1			2			3			Total			Other Company's Proportion		1			2			3			Total.		
s.	d.	£	s	d	£	s.	d	£	s.	d	£	s	d	s.	d	£	s.	d	£	s	d.	£	s.	d	£	s.	d

44

sent to the accountant, shows, for each variety of ticket, the closing numbers, total issues, fares, and amount; and the total in money of this return is the gross station debit. Various deductions may be made from this total for authorised refunds, etc., but these need not be detailed. The tickets, when collected, are sorted and examined by the accounting staff, and are agreed in various ways with the Passenger Return, the arithmetical accuracy of which is also verified.

Goods Traffic.—Goods traffic obviously requires different methods. For example: John Brown (consignor) tenders 1 ton of sugar for conveyance from X to William Jones (consignee) at Y, and requires, in addition to the rail conveyance, the cartage of the sugar to and from the railway stations at X and Y respectively. Brown hands the railway company a *consignment note*, showing full particulars of the consignment, including the weight, and stating whether the carriage charges are payable by him or by Jones. We will assume that the latter is to pay. The company collects the sugar by lorry, weighs it at the station, and verifies the consignment note generally, but the future movements of the sugar do not here concern us. The consignment note is handed by the checker to the invoice clerk, who, having ascertained the appropriate rate, prepares the *Goods Invoice*, as shown opposite

This invoice, after it has been copied in a tissue book, accompanies the sugar to Y, at which station it is examined and verified by the checker and invoice clerk. If Jones has a credit account the charges are posted to his account; if he has no account they are collected from him on delivery. If the charges had been invoiced in the "Paid" column, no amount would be collected, but the various items would nevertheless be verified.

At the end of every month each station forwards to the accountant an *Abstract of Goods Traffic*, showing in detail invoices for traffic forwarded to and received from every other station. The abstract prepared by station X, showing the invoices for traffic forwarded to station Y, would be entered in the form shown at p. 676.

The totals shown by the Abstract of Received Traffic from station X (assuming them to be "Paid, £49 3s 4d" and "To Pay, £56 2s 0d.") will be counterbalanced by corresponding details shown in the *Abstract of Goods Received and Forwarded* from station Y.

It will be seen that by this system one station acts as a check upon the other, and when the abstracts are agreed by the accountant the gross debit of station X for the month (ignoring traffic with other stations) is:—

		£	s.	d.	£	s.	d.
Goods Traffic Forwarded. Paid	..	*60*	*5*	*6*			
Goods Traffic Received. To Pay	..	*56*	*2*	*0*			
					£116	*7*	*6*

LOAMSHIRE RAILWAY COMPANY.

INVOICE No. *8.*

GOODS INVOICE

X TO *Y* on the *8.30 p.m. Train,* via *Blanktown,* on the *1st* day of *January,* 19...

Owner and No. of Wagon.	No. of Consignment Note.	Sender	Consignee	Address	No of Packages.	Description.	Marks	Remarks.	Smalls Actual Weight		Weight. Carted				Weight. Not Carted.			
									Q	Lb	T	C	Q	Lb	T	C	Q.	Lb
Selves	*321*	*John Brown*	*Wm. Jones*	*10 High Street*	*16*	*Bags, Sugar*	*J B*				*1*	*0*	*0*	*0*				

GOODS INVOICE—*continued.*

Paid on			Collection.		Rate	Paid.			To Pay.			Cartage. Prepaid		Cartage. To Pay		Undercharge.	Overcharge	Porters			Posted.			Folio	Reference to Delivery Book.
£	s.	d	s	d		£	s	d.	£	s.	d	s.	d.	s	d			£	s	d	£	s	d		
					18s 9d.				*0*	*18*	*9*														

LOAMSHIRE RAILWAY COMPANY.

SUMMARY OF MONTHLY TOTALS OF LOCAL GOODS ABSTRACTS.

TOTALS OF ITEMS AFFECTING STATION DEBIT TO BE CARRIED TO SUMMARY OF GOODS TRAIN RECEIPTS.

X Station. Month of *January* 19..

INWARDS.																For Accountant's Office Use.	STATIONS.	For Accountant's Office Use
Weight				Paid on			Collection			Paid.			To Pay					
Carted.		Not Carted.																
Tons.	Cwts	Tons	Cwts	£	s.	d.	£	s	d.	£	s	d	£	s	d			
																	F Y	

SUMMARY OF MONTHLY TOTALS OF LOCAL GOODS ABSTRACTS—*continued*

OUTWARDS.															
Weight				PAID ON.			Collection			PAID.			To Pay.		
Carted		Not Carted													
Tons	Cwts.	Tons.	Cwts.	£	s.	d.	£	s.	d	£	s.	d	£	s	d.
1														*18*	*9*
Etc		*Etc*			*Etc*			*Etc.*						*Etc*	
		Totals	*(say)* £							*£60*	*5*	*6*	*£17*	*6*	*3*

And the gross debit of station Y (again ignoring traffic with other stations) is :—

		£ s. d.	£ s. d.
Goods Traffic Forwarded. Paid	..	49 3 4	
Goods Traffic Received. To Pay	..	17 6 3	
			£66 9 7

Assuming that the total debits arising at station X are those mentioned above, the *Station Balance Sheet* for the month supplied to the accountant, would read :—

	£	s	d		£	s.	d
To Balance from December 19 .	34	0	8	By Cash remitted to Chief Cashier	248	7	6
,, Passenger Traffic ..£143 10 3				,, Balance—			
,, Goods Traffic .. 116 7 6				Cash on hand . £5 0 0			
	259	17	9	Outstanding Accounts (as per detailed list) .. 40 16 11			
					45	16	11
	£294	4	5		£294	4	5

A detailed form of a Station Balance Sheet is given at pp. 678–9.
The *Station Cash Book* and the books dealing with the collection of accounts, the remittance of cash to Head Office, etc , need not be detailed here, since they present no unusual features.

The accounts in the head office General Ledger concerned with station earnings are not less than two—the *Traffic Receipts Account*, which at the close of the year shows in total the receipts carried into Railway Working Account (No. 10) in the published accounts already referred to ; and *Stations Account*, which is the summary of all the Station Balance Sheets, the balance of which at the close of the year is shown in the General Balance Sheet Statement (No. 18) of the published accounts as "Outstanding Traffic Accounts."

The necessary entries in the head office books for the month's transactions are on the following lines :—

Stations Account. *Dr.*

To Traffic Receipts Account .. ..

For Traffic Receipts as per Traffic Book for the month of January

(Being the summary of all receipts appearing on the Dr side of " Station Balance Sheets " [including £259 17s. 9d for station X].)

The debit side of the head office Cash Book would show the cash received from stations (including £248 7s. 6d from station X), and this would be posted to the credit of " Stations Account," the balance of which would then be the total of the balances in the Station Balance Sheets (including £45 16s. 11d. at Station X).

For summary purposes the Station Balance Sheets are entered in an abstract book known as the *Traffic Book*, which has at each side of the folio the names of the stations and columns with the headings shown at the foot of p. 678.

LOAMSHIRE RAIL-

BALANCE SHEET OF .... STATION.

DR

	£	s	d	£	s	d.	£	s.	d.
TO BALANCE FROM LAST MONTH, VIZ :—									
Total Assets, as per Balance Sheet									
Add Amount of Deficiency, as per Balance Sheet									
Deduct: Amount of Excess, as per Balance Sheet									
STATION DEBIT AS PER MONTHLY RETURNS, BROUGHT TO ACCOUNT :—									
Passenger Train Traffic—									
Total receipts from Passengers									
Parcels up to 2 cwt. and Excess Luggage									
Other Merchandise by Passenger Train .. .									
Total Passenger Train Receipts			£						
Goods Train Traffic—									
Merchandise									
Live Stock									
Coal, Coke, and Patent Fuel									
Other Minerals									
Total Goods Train Receipts			£						
Total Traffic Receipts									
Miscellaneous Receipts from Railway Working									
Total						£			
„ STATION DEBIT FOR ITEMS NOT INCLUDED IN MONTHLY RETURNS.—									
No Debits—									
Current month Folio .... (balance awaiting debit) ..									
Previous month Folio .... (balance awaiting debit) .									
Second previous month Folio ... (balance awaiting debit)..									
Paid ons not paid out									
Season Tickets for following month									
Undercharges on Invoices or Waybills not entered up .. .									
Total (to be transferred to credit side of next month's Balance Sheet)						£			
Total Amount for which Station is Liable						£			
„ Amount of Credits in excess of Debits (to be explained)									
Total						£			

Passenger.
Parcels.
Goods.
Etc.
Etc.
Total Receipts (Journalised as above).
Balance from previous month (as per Stations Account in Ledger).
Total Debit.
Cash Remitted (as per Cash Book).
Balance to next month (as per Stations Account in Ledger).

WAY COMPANY

MONTH ENDED ...., 19...

Cr.

				£	s.	d.	£	s.	d.
By Amount transferred from last month (No Debits, etc.)									
" Cash remitted to Cashier and credits authorised by Accountant									
" Balance carried to next month, viz :—									
Cash in hand (amount authorised £ —any excess to be explained)									
Outstanding Carriage, etc , Accounts									
Authorised Ledger Holders									
Sundry Accounts (amount paid or otherwise cleared from 1st to 10th inclusive of following month)									
Sundry Accounts (unpaid at 10th of following month) .. .									
Charges upon traffic invoiced during month and not received until following month (Station debit included currently and charges collected or posted to Traders' Accounts for following month)									
Season Tickets or Traders' Season Tickets unpaid									
Military, etc , Warrants sent Accountant's Office									
Total .. .. £									
" Disbursements not yet repaid :—	£								
Petty Cash, etc., Vouchers sent to Manager—									
Petty Cash Account to......19.. . sent									
Passenger Refunds . .. . sent									
Parcels, etc , Refunds .. .. .. sent									
Goods, etc., Refunds .. .. .. sent ...									
Straw, etc , purchased .. .. .. sent									
Petty Cash, etc., Vouchers from .... to end of month, in hand									
Postage Stamps in hand and value of stamps used from 25th to end of month..									
Wages advanced .— Name. Date Paid.									
Sundry items (if any) to be entered in detail									
Total									
" Overcharge Vouchers not completed and in correspondence as per Overcharge Books :—									
" Nominal value of Sundry Assets, viz. :—									
Conveyance Labels, etc , in hand—									
Left Luggage Labels .. . . £									
Season Ticket Holders' Parcels Labels .. .									
Newspaper Parcels Labels									
Letter Post Labels									
Farm and Garden Produce Labels									
Farm and Garden Produce Boxes									
Total				£					
Total Assets						£			
" Amount deficient—Credits less than Debits (to be explained)									
Total						£			

Railway Clearing House.

The Railway Clearing House, established by statutory authority, deals with all "Through Traffic" divisions which have been ignored above. Where more than one company conveys any passenger or goods, the traffic is returned separately by the station to the accountant, though on lines similar to those indicated for purely local traffic. All the returns pass to the Clearing House through the accountant's office of the company concerned, and

the cash receivable from through traffic is part of the station debit, and is merged in the company's receipts The returns are checked in the Clearing House, and the receipts are apportioned between the various companies concerned on agreed bases, having regard to the mileage conveyed by the several companies and, in the case of goods traffic, to the services rendered by the *terminal companies*. Obviously, if three companies are concerned in the carriage of a consignment, and each carries it ten miles, the two terminal companies, in addition to their share for transit, are entitled to additional allowances for the use of their stations and for the services rendered by their employees in loading and unloading the goods. The Clearing House, after apportioning all the receipts of all the companies, debits each company with the cash receivable by them, and credits each with the ascertained proportions due to them, and an abstract known as a " settlement " is sent to the companies concerned. The balance thus ascertained to be due to, or by, each company is also advised to them on the lines stated at p. 681

It will be seen that the Railway Clearing House performs work analogous to that of the Bankers' Clearing House, and acts as agents for the settlement, on balance, of the many and varying accounts between the companies. The working expenses of the clearing are kept distinct from the traffic receipts divisions, and are separately paid by the companies. In certain cases divisions of through receipts are dealt with by private settlement, and not through the Clearing House, but these are the exception, and usually arise when one of the parties is not a member of the Clearing House, e.g small motor coach proprietors. It is not possible in this brief survey to deal fully even with this one section of railway accounting, and the above remarks do not purport to give a precise or full record of the work which is necessary to enable a company to account correctly for its earnings.

Internal Expenditure Accounts.

The " Expenditure " accounting methods employed by the different companies vary considerably, but as a rule this work is performed in detail by the departmental accountants, the principal departments being the " Stores," " Permanent Way," " Locomotive," " Carriage and Wagon," and " Traffic." The chief accountant will receive from the various departments the accounts of all descriptions, including wages, requiring payment. A list or book showing in detail the accounts due for payment is submitted to the directors, and cheques for the same are authorised and issued. The list or book will be entered in total only on the credit side of the Cash Book, and posted to a columnar account for " Sundry Working Departments " in the General or Key Ledger. The departments having been debited, a periodical statement (monthly, four-monthly, or other period) is received from each department showing the disposal of its debit, and this information is journalised and the necessary debits are passed to the expenditure and personal accounts concerned. The depart-

mental accounts in the General Ledger are merely accommodation personal accounts, and automatically balance at the close of the year, stock being debited to a "Stocks of Stores and Materials Account," which is a separate item in the General Balance Sheet (Form 18 in the published accounts). As much use as possible is made of columnar Ledger accounts, and the modern tendency is to substitute direct postings from abstract books for Journal entries. Where, however, a transaction is of permanent interest, a Journal entry with suitable narration is made A specimen of a combined Abstract and Journal which has been adopted is shown on p. 672. The object of this is to combine the detail formerly shown each month in a Journal with the undoubted advantages

RAILWAY CLEARING HOUSE MONTHLY STATEMENT.

JANUARY, 19...

Loamshire Railway Company.	*Dr.* £	*Cr.* £
Passengers		*5,000*
Parcels	*1,800*	
Goods		*7,820*
Live Stock	*660*	
Minerals	*420*	
Coal	*10,960*	
Balance due by Clearing House		*1,020*
	£13,840	*£13,840*

On the above authority the company, in their books, will

Debit.	*Railway Clearing House*	*£1,020*	
	and		
Credit.	*Traffic Receipts*		*£1,020*

and receive, in due course, £1,020 from the Clearing House.

of an Abstract Book, as well as providing a posting medium for the General Ledger accounts.

This book has the advantage over an ordinary Journal of assembling together recurring items which frequently require comparison, and in this manner it facilitates the work of both the accountant and the auditors, and obviates the labour of repeating each month the details shown in the body of the Journal.

Full Journal entries are advisable in connection with Capital Account entries, as these particulars may be referred to fifty or one hundred years hence. An entry based on details shown in a voucher or a subsidiary book, which has long ago been sold as waste paper, is of little practical use.

The importance of proper costing systems and of full records of the expenditure of the great spending departments of a railway

Dr

No. 4.—RECEIPTS EXPENDITURE AND

To Expenditure.	Amount expended to December 31, 19. .			Amount expended during Year as per No. 5.			Total.		
	£	s.	d.	£	s	d.	£	s	d.
Lines open for Traffic .. .	86,318,354	3	4	84,779	12	4	86,403,133	15	8
Lines not open for Traffic :—									
Widenings of and additions to existing Lines .. .	704,303	11	2	169,740	13	4	874,044	4	6
Lines leased	6,776	11	2				6,776	11	2
Lines jointly owned ..	5,807,799	4	11	7,939	9	8	5,815,738	14	7
Lines jointly owned, as enumerated in Abstract J.									
Manchester South Junction and Altrincham .	621,443	18	2				621,443	18	2
Portpatrick and Wigtownshire	93,858	15	1	486	5	0	94,345	0	1
Lines jointly leased . ..	23,801	0	9	*Cr. 389*	*3*	*4*	23,411	17	5
Lines jointly leased, as enumerated in Abstract J.—									
Oldham, Ashton, and Guide Bridge Junction	173,300	0	0				173,300	0	0
Rolling Stock	13,980,590	19	5	297,594	16	0	14,278,185	15	5
Manufacturing and Repairing Works and Plant :—									
Land and Buildings .	1,809,121	2	4	13,088	0	3	1,822,209	2	7
Plant and Machinery ..	1,781,891	18	9	66,902	9	10	1,848,794	8	7
Total Capital expended upon Railway .. .	111,321,241	5	1	640,142	3	1	111,961,383	8	2
Road Vehicles employed in the collection and delivery of Parcels and Goods, and in the conveyance of Passengers —									
Goods and Parcel Road Vehicles	182,693	16	3	96,129	6	7	278,823	2	10
Passenger Road Vehicles..	14,366	15	4	*Cr 2,824*	*6*	*7*	11,542	8	9
Steamboats	1,716,170	5	8	911,675	4	11	2,627,845	10	7
Steamboat Repairing Works and Plant	126,241	13	4				126,241	13	4
Canals	890,117	7	10	*Cr. 3,875*	*16*	*0*	886,241	11	10
Docks, Harbours, and Wharves	1,524,540	2	8	35,475	8	11	1,560,015	11	7
Hotels	590,635	18	5	1,176	4	2	591,812	2	7
Electric Power Stations, etc.	1,085,182	5	11	26,353	5	5	1,111,535	11	4
Land, Property, etc., not forming part of the Railway or Stations :—									
Used in connection with Railway working ..	450,430	15	2	2,731	0	0	453,161	15	2
Not used in connection with Railway working .	4,648,186	18	0	*Cr 38,050*	*1*	*11*	4,610,136	16	1
Subscriptions to other Companies	3,495,760	19	1				3,495,760	19	1
Advance to Dublin and South-Eastern Railway Company . ..	100,000	0	0				100,000	0	0
Advance to London Electric Railway Company ..	753,627	13	7	34,344	0	5	787,971	14	0
Total Expenditure .. .£	126,899,195	16	4	1,703,276	9	0	128,602,472	5	4

company need no emphasis. The cost of manufacturing a particular article for a company's own use may, and doubtless would, be lost sight of if the wages and materials in connection therewith were charged direct to the ultimate expenditure account concerned. If, e.g., a railway company installs the plant necessary to manufacture reinforced concrete, they could charge the labour and material employed direct to (say) Repairs of Stations, but if so they would not know if the concrete was costing more or less than

ON CAPITAL ACCOUNT. *Cr.*

By Receipts.	Amount received to December 31, 19 £	s	d	Amount received during Year £	s.	d	Total £	s	d.
Shares and Stocks (No. 2)	79,450,899	10	0				79,450,899	10	0
Debenture Stock (No 3)	29,737,507	0	0	12	0	0	29,737,519	0	0
Premiums on Shares and Stocks . £ 9,592,454 s. 1 d. 5									
Premiums on Debenture Stock . .. 1,008,125 15 9									
Total Premiums 10,600,579 17 2									
Discounts on Shares and Stocks .. 668,320 3 6									
Discounts on Debenture Stock 8,106 1 6									
Total Discounts 676,426 5 0									
Balance of Premiums and Discounts	9,924,153	12	2				9,924,153	12	2
Total Receipts .. ..£	119,112,560	2	2	12	0	0	119,112,572	2	2
By Balance							9,489,900	3	2
Total .. .. £							128,602,472	5	4

the current market price. A Concrete Manufacture Account is therefore set up, and precise details are kept, not only of the cost per cubic yard of the material, but of the different items which make up that cost. The cost of labour is not dealt with as one unit, but is subdivided over the different operations, e.g. bending and wiring reinforcement, erecting forms, stripping and cleaning forms, mixing and placing concrete, finishing and erection.

The actual cost for each operation per yard is calculated and

compared week by week, and, to facilitate ready comparison, a graph of the result is prepared. If the curve shows an upward tendency, and no adequate reason for it is given, steps are taken if possible which will cause the curve to descend. Similarly, the cost of handling goods, coal and oil consumption of locomotives, and many other unit costs are prepared which, although not necessary to account for the expenditure, are necessary to control it. Where necessary, the unit cost is expressed in hours of labour instead of money. The comparison of the expenditure of one period with another is also very necessary, and for this purpose the items shown in the Expenditure Abstracts (Account No. 10) are subdivided exhaustively, and a close and continuous scrutiny is made of the component details.

STATISTICAL RETURNS.

The *Railway Companies (Accounts and Returns) Act,* 1911, requires railway companies to publish not only the financial statements referred to above, but also elaborate statistical returns. While these returns are not purely financial, and do not form part of the double-account system, they, together with the financial statements, are of great assistance in ascertaining the position of, and the work done by, the company.

They supply the following information:—

No. I (A) Mileage of Lines Open, Maintained and Run Over.

No. X. Principal Materials used during Year for Repairs and Renewals.

Miles of Line Renewed during Year.

(It can be ascertained from these tables if the company have renewed a fair proportion of their track during the year, and reference to Abstract A of Account No. 10 will show if the company has reserved any sum for renewals, or has spent any amount previously reserved.)

No. II. Numbers of Rolling Stock.

(*A*) Locomotives, each class separate.
(*B*) Rail Motors, each class separate.
(*C*) Electric Vehicles, showing seating capacity.
(*D*) Carriages, in classes and showing seating capacity.
(*E*) Goods Train Vehicles, each class and capacity separate.

No. XI. Details of Rolling Stock, Repaired and Renewed, etc.

(The volume of work done can, as in the case of the railway line, be compared with the numbers of stock and the repairs, etc., charged to Abstract B in Account No 10.)

No. II (F). Numbers of Rail Service Vehicles and Shunting Horses.

No. III. Numbers of Road Vehicles (in classes) and Horses for same.

(The plant required for the work performed by the company as per Abstract F of Account No. 10.)

No IV. Names, Horse-power, and Tonnage of Steamers.

No V Names and Lengths of Canals.

No. VI. Names and Lengths of Quays in Docks and Harbours.

No. VII. Names and Situations of Hotels

No. VIII. Acreage of Land and Numbers of Houses.

No. IX. Data of Other Industries (if any).

(These are mainly informative statements to show the extent of the non-railway businesses of the company.)

No. XII. Engine and Train Mileage.

(This is of considerable value in relation to the receipts and working expenses generally, and particularly as regards Abstract C of Account No. 10 (Locomotive Running Expenses). The receipts and expenses per train mile are unit figures of much interest, and although for one company for one year they are of no practical utility, when compiled over a series of years and compared with other companies they afford interesting and useful data of the results of railway working.)

No. XIII. Numbers of, Receipts from, and Average Fare for Passengers in classes.

No. XIV. Tonnage of, Receipts from, and Average Receipt per Ton of Goods Train Traffic (in classes) and Number of Live Stock.

(These two returns are of interest, although in comparison of the averages with the corresponding returns of other companies, it must be borne in mind that the averages are irrespective of the length of the distance conveyed.)

No. XV. Tonnage of Principal Classes of Minerals and Merchandise and Numbers of Live Stock carried by Goods Train.

No. XVI. Summary of Principal Financial Results in Comparison with those of Past Years

These returns do not exhaust the statistics that can with advantage be compiled by railway companies. Other statistics are got out from time to time, but they are not published and are for private use only. Some companies, for instance, ascertain continuously, or at regular intervals, the passenger miles (the total number of miles travelled by all passengers) and passenger vehicles miles (the total number of miles travelled by all passenger vehicles). From these figures and the published returns, the average fare per passenger per mile, the average distance travelled per passenger, the average distance each vehicle is hauled, and

No. 8.—REVENUE RECEIPTS AND EXPENDITURE OF THE WHOLE UNDERTAKING.

	£	s	d	£	s.	d.	Year 19... £	Year 19... £
Receipts in respect of Railway Working and of separate Businesses carried on by the Company, including estimated amount receivable under agreement with the Government in respect of the control of Railways for the period January 1st to August 15, 19..				38,492,619	12	7		40,309,850
Expenditure				32,837,186	4	8		34,080,449
Net Receipts				5,655,433	7	11		6,229,401
Proportion of amount receivable under Section 11 of the Railways Act, 1921				400,000	0	0		
Miscellaneous Receipts (*Net*):—								
Rents from Houses and Land	211,878	19	9				136,805	
Rents from Hotels	1,384	12	2				1 175	
Other Rents, including Lump-sum Tolls	131,458	5	2				132,549	
Interest and Dividends from Investments in other Companies:—								
Callander and Oban Railway	1,875	0	0				2,250	
Cockermouth, Keswick, and Penrith Railway	500	0	0				500	
Dublin and South-Eastern Railway (New Ross and Waterford Extension)	3,480	0	0				3,480	
Great Southern and Western Railway	4,766	1	9				4,991	
Harborne Railway	600	0	0				600	
North London Railway	79,723	16	0				73,080	
Shropshire Union Railways and Canal	12,380	15	9				12,381	
Interest on Advance to London Electric Railway	30,664	6	2				29,046	
Transfer Fees	1,962	0	0				2,133	
Joint Lines (Abstract J): Company's proportion of Receipts other than those in respect of Railway Working	7,827	18	3				7,836	
General Interest	197,413	5	7				196,597	
Great Western Railway: Moiety of Shrewsbury and Welshpool and Vale of Towy Dividends	7,500	0	0				7,500	
Furness Railway. Moiety of Whitehaven, Cleator, and Egremont Dividend	22,975	0	0				22,975	
				716,390	0	7		633,898
Total Net Income £				6,771,823	8	6		6,863,299

No. 9.—PROPOSED APPROPRIATION OF NET INCOME.

	£	s	d	£	s	d	Year 19 .. £	Year 19 .. £
Balance brought forward from last year's Account				284,132	10	1		270,790
Net Income (as per Statement No 8)				6,771,823	8	6		6,863,299
Total				7,055 955	18	7		7,134,089
Deduct—Interest, Rentals, and other Fixed Charges —								
Interest on Superannuation and other Funds	248,727	15	4				224,831	
Rent Charges and Annuities	8,349	11	0				8,350	
Chief Rents, Wayleaves, etc, including Lump-sum Tolls	71,081	17	9				76,290	
Interest on Debenture Stock	1,170,673	10	0				1,170,673	
Rent of and Guaranteed Interest on Leased and Worked Lines —								
Charnwood Forest	5,388	9	11				5,397	
Harborne	4,424	12	1				4,409	
Mold and Denbigh	8,564	5	4				8,567	
North and South Western Junction	3,167	6	8				3,167	
Minor Lines	223	0	0				223	
Joint Lines (Abstract J) Company's proportion	6,162	2	10				7,112	
Birkenhead Railway Dividend (*Moiety*)	49,499	2	5				49,499	
Shrewsbury and Hereford Railway Dividend (*Moiety*)	19,875	0	0				19,875	
Tenbury Railway Dividend (*Moiety*)	675	0	0				675	
West London Railway Dividend (*Proportion*)	2,007	14	8				2,008	
Shropshire Union Railways and Canal	49,870	1	1				50 023	
Birmingham Canal	73,937	3	5	1,722,626	12	6	54.989	1,686,088
Balance after payment of Fixed Charges				5,333,329	6	1		5,448,001
Appropriation to Reserve								100,000
				5,333,329	6	1		5,348,001
Dividends on Guaranteed and Preference Stocks —	£	s	d					
Consolidated 4 % Guaranteed Stock	604,016	4	10				604,016	
Consolidated 4 % Preference Stock	923,224	16	0				923,225	
4 % Preference Stock (1902)	250,868	8	0				250,868	
4½ % Redeemable Preference Stock	67,500	0	0	1,845,609	8	10	67,500	1,845,609
Balance available for Dividend on Consolidated Stock .. £				3,487,719	17	3		3,502,392
	£	s	d					
Dividend on Consolidated Stock at 7½ % per annum	3,218,259	1	10				(7½ %) 3,218,259	
Balance carried forward to next year's Account	269,460	15	5				284,133	
Total	£3,487,719	17	3				3,502,392	

No. 18.—GENERAL BALANCE SHEET

Dr.

	£	s.	d.	Year 19... £
To Amount due to Bankers				*280,327*
,, *Temporary Loan*				*744,000*
,, Unpaid interest and Dividends	18,408	19	4	*20,007*
,, Interest and Dividends payable or accruing and provided for	696,250	1	2	*677,301*
,, Amount due to Railway Companies and Committees	1,007,316	4	4	*302,953*
,, Savings Bank	1,264,073	2	3	*1,173,807*
,, Superannuation and other Provident Funds	6,532,339	6	11	*5,972,990*
,, Accounts payable	2,471,311	12	11	*2,704,599*
,, Liabilities accrued	82,722	3	4	*189,757*
,, Miscellaneous Accounts	1,206,850	10	2	*1,396,884*
,, Clerk's Guarantee Fund	6,029	10	11	*5,676*
,, Forged Transfer Act Fund	13,856	19	9	*13,451*
,, Compensation Fund	228,600	0	0	*203 800*
,, Fire Insurance Fund	570,735	11	10	*557,831*
,, Compensation under Railways Act, 1921	2,665,088	0	0	
,, Depreciation Funds (including provision for arrears of Maintenance) —				
Railway	7,189,176	15	3	*6,275,016*
Steamboats (including Insurance Fund)	915,250	0	6	*1,021,440*
Other Business	161,483	12	2	*146,412*
,, General Reserve Fund	2,000,000	0	0	*1,900,000*
,, Balance available for Dividends and Reserve as per Account No. 9 —				
Dividends .. £5,333,329 6s. 1d.				*5,348,001*
Reserve ..				*100,000*
£5,333,329 6s. 1d.				*5,448,001*
Less Interim Dividends paid, as Per Account No 9 (*a*) £1,995,557 15s. 1d.				*2,210,108*
	3,337,771	11	0	*3,237,893*
	£30,367,264	1	10	*26,824,144*

Cr.

	£	s	d	Year 19.. £
By Capital Account · Balance at Debit thereof as per Account No. 4	9,489,900	3	2	*7,786,636*
,, Cash at Bankers and in hand £1,171,539 18 8				
,, Cash on Deposit at Interest 380,000 0 0	1,551,539	18	8	
,, Investments in Government Securities (at cost)	4,480,000	0	0	*5,880,000*
,, Investments in Stocks and Shares held by the Company and advances to other Companies not charged as Capital Expenditure	295,493	0	7	*338 091*
,, Stock of Stores and Materials	5,345,740	10	1	*5,758,325*
,, *Outstanding Traffic Accounts*	2,018,595	14	4	*2 713,163*
,, Amount due by Railway Companies and Committees	969,463	19	4	*398,646*
,, Amount due by Railway Clearing Houses	947,145	3	10	*85,860*
,, Amount due by Postmaster-General	150,226	0	0	*164 777*
,, Accounts Receivable	3,474,604	8	9	*1,683,055*
,, Miscellaneous Accounts	1,566,149	0	9	*1,345;851*
,, Dividends to be received on Shares held by the Company	78,406	2	4	*67,744*
,, *Steamboat* Suspense Account				*601,996*
	£30,367,264	1	10	*26,824,144*

the average number of passengers per vehicle can be ascertained. Similar statistics are also compiled for goods and mineral traffic. But the cost of regularly compiling these statistics is considered by the majority of the companies to be in excess of their practical value, although for special purposes they are occasionally compiled.

Gas Companies.

Gas companies are, probably, the most numerous class of undertaking employing the double account system of book-keeping.

Statutory and Non-Statutory Gas Companies.—There are some non-statutory gas companies which, chiefly on account of their early foundation, are not bound by the statutory form of accounts, although many even of these frame their published accounts upon similar lines. Unless a gas company possesses statutory powers under a special Act it is greatly handicapped, and is dependent upon the goodwill of the local authority for power to open up the roads in order to lay or repair its mains. The great majority of companies are working under special Acts or are owned by local authorities, and are bound by gas legislation, including the statutory form of accounts. Local authorities who own gas undertakings are not bound by the statutory form of accounts prescribed by the Act of 1871, but in very many cases they adopt the forms. There can be no question that the standardisation of gas accounts has resulted in a mass of comparative statistics of the greatest value to the industry, more especially, perhaps, in the direction (*a*) of working expenses in relation to turnover and residual products; and (*b*) of gas produced in relation to coal consumed, wastage of gas, etc

The Gas Companies Acts.—The more recent gas companies have come into existence under a special Act, or a Board of Trade Provisional Order, which brings them within the regulations of the *Gas Works Clauses Acts,* 1847 *and* 1871, and the *Companies Clauses Consolidation Act,* 1845, which contain general regulations applicable to Parliamentary companies Gas companies are thus exempt from the provisions of the Companies Act 1929, or the Act of 1908 which it superseded.

Companies working under a special Act, or Provisional Order, enjoy a practical monopoly for the supply of gas in the district in which they operate. Parliament will not grant powers to other companies for the same district provided the existing undertaking works satisfactorily.

The *Gas Works Clauses Act,* 1847, is the main statute regulating gas undertakings, and defines their privileges and obligations. Some additions and modifications are contained in more recent Acts, notably in the Act of 1871, in S 35 of which is prescribed the form of accounts, as set out in Schedule B of the Act. This form of accounts applies both to companies working under a special Act, or a Provisional Order, and the necessity for adopting the form has been held to be retrospective. The Act of 1847 limits the distribution of dividends amongst shareholders to 10 % per

annum, such dividends being cumulative if the profits of any particular year are insufficient to pay the maximum dividend.

Sliding Scale.—Since the passing of the Gas Works Clauses Act, 1847, the "Sliding Scale" method has been largely adopted, under which a "standard" price is fixed for the gas supplied. If gas is supplied to consumers at a less price than the standard, dividends to shareholders may be increased *pro rata*. In this manner shareholders and consumers benefit, or suffer, together. Usually a reduction of 1d. per thousand cubic feet in the "standard" price of gas supplied to consumers carries with it the right to an increase of 5s. % in the rate of dividend.

Reserve Funds.—Under the 1847 Act, power was given to apply surplus profits to the creation of a Reserve Fund, not exceeding in amount one-tenth of the nominal capital of the company. This limitation is no longer enforced, and the shareholders may exercise their discretion in accumulating out of divisible profits whatever reserves they may deem necessary. Other reserves were formerly permitted for certain specific purposes, such as insurance and renewals, but any such provision as may be deemed necessary must now be made by means of a Special Purposes Fund. This fund is limited to an amount equal to 10 % of the capital, including premiums. The Reserve Fund may be drawn upon to make good any deficiency in the authorised dividend, or to meet any special contingency.

Borrowing Powers.—The special Acts of all gas companies invariably confer borrowing powers, and these are usually limited to one-third of the paid-up capital of the company. Since the Act of 1877, fresh issues of capital are made by public auction or tender, and all premiums obtained in this manner on new issues are treated as capital profits.

The tendency of modern gas legislation is to create a common interest between consumers and shareholders; reduction in the price of gas to the consumer coincides with an increase in dividends to the shareholders, and *vice versa.*

Provision for Wasting Assets.—Gas companies furnish further illustration of the fact, already pointed out in connection with railway companies, that assets are not always maintained in the Balance Sheet at their original cost. In some modern instances, power has been given to gas companies to set aside profits for the purpose of cancelling capital no longer represented by tangible assets. The majority of gas companies also recognise the obligation to provide for depreciation in many of the shorter-lived assets. Although the statutory form of accounts would appear to suggest that such provision was not contemplated, the Income Tax authorities since 1912–13 have recognised the necessity for provisions of the kind, and in addition to repairs the Commissioners now allow Wear and Tear at the rate of 10 % on the written-down value of meters (ordinary and pre-payment), cookers, and gas fires; and 3 % on the written-down value of gasholders, excluding tanks unless constructed of steel or iron. No allowance is made in respect of the mains, services, and fittings. All repairs and

renewals of these assets are, however, chargeable against current revenue; and any exceptional expenditure in this direction may be spread over a term of years. Reasonable allowances may also be claimed for abandoned, or obsolete, works or plant.

Typical Set of Accounts.—We will now turn to the accounts of the Croydon Gas Company, reproduced at pp. 692–5.

The first Statement reproduced (C) is preceded by "*A. Statement of Ordinary Capital*," and "*B. Statement of Loan Capital*," in which the powers obtained under the various special Acts for raising capital and loan issues are set forth, with particulars of the amount authorised, the maximum dividend, interest payable, the total paid up, the balance remaining to be issued, and similar details. These statements are exactly on the same lines as those given later on in connection with electricity accounts, and show the authority upon which capital has been raised and the balance of the company's resources remaining unissued. As a general rule, capital powers are granted to cover limited periods only.

It has already been stated that new capital is usually offered by public auction. In some cases the "auction clauses" are also extended to loan issues.

The actual amount of capital raised under the various Acts appears on the credit side of the Capital Account.

It will be noted that *C. Capital Account*, reproduced at p. 653, follows closely on the lines of the "Receipts and Expenditure on Capital Account" prescribed for the use of railway companies. The capital expenditure is analysed as between the assets employed for manufacture and distribution, much in the same manner as the relative revenue expenditure is dealt with. The total capital expenditure is marshalled opposite the capital raised for the purpose, and the statement thus discloses the balance in hand, or over-spent, upon capital account. This balance is carried to the second section of the account, the General Balance Sheet, as shown at p. 695 As is the case with railway companies, the statutory form of accounts makes no provision for capital waste by means of the direct deduction of depreciation from the assets. Such waste must be provided for by the creation of specific funds. Most companies do not permanently capitalise their expenditure upon assets of fleeting value, such as stores and fittings, but hold such expenditure in suspense in the General Balance Sheet, reducing it from time to time by charging substantial amounts to revenue.

All renewals are charged to revenue as and when they occur. In cases where worn-out assets are replaced by more modern and costly substitutes, care must be taken that only the *additional* value of the new asset, as compared with the cost of the replaced asset, is taken to capital. The amount so capitalised should represent, as closely as possible, the *increased efficiency* of the undertaking arising from the expenditure.

On turning to *D. Revenue Account*, we find that, in accordance with commercial practice, and contrary to the form of some statutory accounts, the revenue of the undertaking appears on

THE CROYDON GAS COMPANY.

C.—CAPITAL ACCOUNT FOR THE HALF-YEAR ENDED DECEMBER 31, 19..

Dr.

	Expended during Half-year £	s	d	Total Expenditure to December 31, 1921 £	s	d
To Expenditure to June 30, 1921				928,171	3	6
Since that date—						
,, Land, New Buildings, Manufacturing Plant, and other structures connected with Manufacture	76,091	7	4			
,, New Mains and Service Pipes, including laying same, and other Works connected with distribution	34,520	13	6			
,, New Meters (additional)	3,587	5	5	114,199	6	3
				1,042,370	9	9
Less.—						
,, Sale of Wallington Property and	1,500	0	0			
Loss on Realisation	702	0	0			
Written off Old Caterham Works	2,000	0	0	4,202	0	0
				1,038,168	9	9
,, Balance of Capital Account				40,320	15	1
			£	1,078,489	4	10

Cr.

	Receipts to June 30, 1921 £	s	d	Received during Half-year £	s	d	Total Receipts to December 31, 1921. £	s	d
By Ordinary Stocks —									
A	51,600	0	0				51,600	0	0
B	178,400	0	0				178,400	0	0
C	100,000	0	0				100,000	0	0
D	204,015	0	0				204,015	0	0
E	25,000	0	0				25,000	0	0
,, Redeemable Preference Stock (1936)	120,000	0	0				120,000	0	0
,, Premium Capital :—									
On Ordinary Stocks issued under powers prior to the Croydon Gas Act, 1904	130,416	8	5				130,416	8	5
On Stock issued since 1904	*Dr. 12,101*	*9*	*5*				*Dr 12,101*	*9*	*5*
On Loan Capital issued under powers prior to the Croydon Gas Act, 1904	15,288	8	10				15,288	8	10
On Loan Capital issued since 1904	*Dr. 979*	*3*	*0*				*Dr 979*	*3*	*0*
,, Debenture Stocks —									
5 %	44,540	0	0				44,540	0	0
4 %	97,310	0	0				97,310	0	0
,, Redeemable Mortgages — 5 % (1923)	10,000	0	0				10,000	0	0
,, Redeemable Debenture Stock: 7 % (1940)	115,000	0	0				115,000	0	0
						£	1,078,489	4	10

D.—REVENUE ACCOUNT FOR THE HALF-YEAR ENDED DECEMBER 31, 19 ..

Dr.

Half-year, 1920 £	£		£	s	d	£	s.	d
		To Manufacture of Gas—						
178,671		Coal, Oil, etc	169,911	0	4			
1,335		Purification	1,407	11	3			
4,259		Salaries	4,376	1	8			
17,073		Wages and Gratuities	16,319	19	2			
35,208		Repair and Maintenance of Works, Plant, etc, including Renewal of Retorts, Materials, and Labour	29,839	5	0			
3,000		Renewal Fund (H)	1,000	0	0			
	239,546	„ Distribution of Gas—				222,854	0	5
13,291		Salaries	14,379	12	7			
18,663		Repair and Renewal of Mains, Service Pipes, etc, including Materials, Paving, and Labour	10,999	17	10			
9,359		Repairing and Renewing Meters	11,028	16	4			
8,032		Repairing, Renewing, and Fixing Gas Stoves	9,258	19	8			
166		House Fittings	1,076	2	9			
	49,511	„ Public Lamps—				46,743	9	2
	4,525	Lighting and Repairing				4,251	5	5
		„ Rents and Rates—						
425		Rents Payable	394	4	11			
6,276		Rates	8,906	13	4			
	6,701	„ Management—				9,300	18	3
1,075		Directors' Allowance	1,075	0	0			
2,787		Salaries	2,838	5	10			
6,486		Collection	6,321	10	7			
100		Auditors' Fees	100	0	0			
	10,448	„ Sundries—				10,334	16	5
1,535		Stationery and Printing	1,340	13	6			
2,210		General Charges, Advertising, etc	2,651	4	3			
208		Law, etc, Charges	365	3	5			
7		Depreciation Fund for Works on Leasehold Lands	6	16	0			
113		Bad Debts	148	3	3			
1,373		Superannuations	1,330	7	10			
1,495		Pension and Superannuation Funds	1,353	9	8			
223		Workmen's Sick and Burial Fund	273	9	5			
320		Workmen's Superannuation Fund	259	6	4			
1,300		Co-partnership	1,300	0	0			
509		State Insurance	1,026	16	8			
	9,293					10,058	10	4
	320,024	Total Expenditure				303,543	0	0
	35,520	Balance carried to Net Revenue Account (E)				55,186	15	7
	£355,544				£	358,729	15	7

E.—NET REVENUE ACCOUNT FOR THE HALF-YEAR ENDED DECEMBER 31, 19...

Dr.

	£	s	d.
To Interest on Debenture Stocks and Mortgages	7,334	14	0
„ Interest on Deposits for Gas	59	14	3
„ Interest	1,159	1	5
„ Income Tax	1,886	10	0
„ Amount written off Old Caterham Works and Property at Wallington	2,702	0	0
„ Transfer to Insurance Fund (G)	2,000	0	0
„ Balance of Net Profit available for Dividends to December 31, 1921	40,044	15	11
	£55,186	15	7

F.—RESERVE FUND ACCOUNT FOR THE HALF-YEAR ENDED DECEMBER 31, 19...

Dr.

		£	s	d
To Transfer to Net Revenue (E)		8,400	6	5
„ Amount to be carried to next Account		*39,516	2	7
* Invested in :—				
£18,950 0s. 0d 5 % War Loan, 1929/47 at 85 %	£16,107 10s 0d.			
£950 0s 0d. 3 % Debenture Stock at 46 %	437 0s 0d			
	£16,544 10s 0d			
		£47,916	9	0

D.—REVENUE ACCOUNT FOR THE HALF-YEAR ENDED DECEMBER 31, 19..—*continued*.

CR

	£	s.	d.	£	s.	d.	Half-year *1920*. £	£
By SALE OF GAS—								
Private Consumers—51,413								
Croydon and Carshalton Districts at 1s 1¼d and 1s 1⅓d per Therm	241,232	5	8				*211,209*	
Caterham District at 1s. 2d. and 1s. 2½d. per Therm	16,388	14	4				*13,191*	
Public Lighting	9,558	11	3	267,170	11	3	*9,024*	*233,424*
,, RENTAL OF METERS—								
Ordinary Company's .. .. 25,359; Consumers' .. .. 345; Prepayment 25,709	5,211	8	11				*5,025*	
,, Rental of Gas Stoves (Cooking 34,464, Heating 15,464)	9,209	18	1				*8,315*	
,, Rental of House Fittings	2,918	3	0	17,339	10	0	*2,851*	*16,191*
,, SALE OF RESIDUAL PRODUCTS—								
Coke, *less* Labour and Cartage	53,311	2	7				*65,002*	
Breeze, *less* Labour and Cartage	7,815	15	0				*5,316*	
Tar, *less* Labour and Cartage.	9,943	11	4				*24,283*	
Sulphate of Ammonia, *less* Labour and Cartage	2,763	19	2	73,834	8	1	*10,843*	*105,444*
,, Rents Receivable				376	6	3		*485*
			£	358,729	15	7		*£355,544*

NOTE:—
Paid during Half-Year for Wages, Salaries, and Bonus: 1920—£94,099 1 4; 1921—£92,667 12 8

E.—NET REVENUE ACCOUNT FOR THE HALF-YEAR ENDED DECEMBER 31, 19..—*continued*.

CR.

	£	s	d	£	s.	d.
By Balance from last Account	19,559	17	7			
,, Transfer from Reserve Fund (F) . ..	8,400	6	5			
	27,960	4	0			
Less Dividends for the Half-year ended June 30, 1921	27,960	4	0			
,, Balance from Revenue Account (D), being Profit for the Half-year ended December 31, 1921 .. .				55,186	15	7
				£55,186	15	7

F.—RESERVE FUND ACCOUNT FOR THE HALF-YEAR ENDED DECEMBER 31, 19..—*continued*.

CR.

	£	s.	d.
By Balance from last Account	46,870	9	4
,, Interest	1,045	19	8
	£47,916	9	0

G.—INSURANCE FUND ACCOUNT FOR THE HALF-YEAR ENDED DECEMBER 31, 19...

Dr.

		£	s	d
To Compensations for Accidents, etc.		277	14	4
,, Amount to be carried to next Account		†18,346	5	7
† Invested in :—				
£11,500 0s 0d 5 % War Loan, 1929/47 at 85 %	£9,775 0s. 0d.			
£2,250 0s. 0d 3 % Debenture Stock at 46 %	1,035 0s. 0d			
	£10,810 0s. 0d.			
		£18,623	19	11

Cr.

	£	s	d
By Balance from last Account	16,306	15	4
,, Interest	317	4	7
,, Net Revenue Account (E)	2,000	0	0
	£18,623	19	11

M.—GENERAL BALANCE SHEET ON DECEMBER 31, 19...

Dr.

	£	s.	d.	£	s.	d.
To Capital Account (C) Balance				40,320	15	1
,, Net Revenue Account (E) Balance				40,044	15	11
,, Reserve Fund Account (F) Balance				39,516	2	7
,, Insurance Fund Account (G) Balance				18,346	5	7
,, Renewal Fund Account (H) Balance				5,916	9	5
,, Pension and Superannuation Funds				38,848	7	6
,, Co-Partnership				8,636	2	6
,, Creditors—						
Unpaid Dividends	64	0	11			
Unpaid Debenture Interest		14	0			
Plant Coal, Stores, etc	95,265	14	11			
Deposits for Gas and Interest	3,185	19	7			
Interest on Debenture Stocks and Mortgages	7,334	14	0			
Temporary Loan	37,475	15	11			
				143,326	19	4
				£334,955	17	11

Cr.

	£	s.	d.	£	s.	d.
By Cash at Bankers	158	4	10			
,, Cash at Offices	221	12	9			
				379	17	7
,, Amounts invested—						
Reserve Fund	16,544	10	0			
Insurance Fund	10,810	0	0			
Funding Loan 1960/90	6,850	0	0			
				34,204	10	0
,, Stock—						
Coal and Oil	59,088	9	3			
Coke and Breeze	937	10	0			
Tar, Liquor, and Sulphate of Ammonia	7,113	12	10			
Sundry Stores	46,691	5	5			
				113,830	17	6
,, Debtors—						
Gas, etc , to :						
Sept 30, 1921 .. £1,501 13 11						
Dec 31, 1921 .. 111,540 15 7						
	113,042	9	6			
Coke and other Residuals	15,982	6	2			
Sundries	23,861	9	4			
				152,886	5	0
,, Gas Stoves, etc				33,654	7	10
				£334,955	17	11

the credit side of the account. The revenue from private consumers is separated from that derived from public services, and the *net* produce of the sale of residuals is stated after deducting wastage and the cost of wages Expenditure is grouped under convenient departmental headings. As a necessary consequence of this arrangement, the wages, both capital and revenue, are similarly analysed.

Several details in the original form of the statutory accounts need amplification or modification in some directions, owing to more modern processes of manufacture, and in consequence of the later practice of installing slot meters, and letting cookers, heaters, and fittings.

It will be observed that a co-partnership scheme has been adopted by the company, a sum having been set apart out of revenue for this purpose. Co-partnership principles were first introduced by the South Metropolitan Gas Company, and have now been adopted by several companies, and have proved beneficial both to the companies and their employees. The bonuses payable to employees usually vary with the price of gas, as is the case with the shareholders' dividends, in cases where the sliding scale has been adopted

E. Net Revenue Account is similar to the appropriation section of the commercial form of Profit and Loss Account, and needs no explanation.

F. Reserve Fund Account contains particulars of the revenue accumulated by appropriations out of profits under the powers of the company, after providing for dividends at the standard rates As is the case in the accounts under review, this fund should be invested in gilt-edged securities and allowed to accumulate. Any depreciation written off the investments of a reserve fund must be carried to the relative reserve fund, and not taken direct to the Revenue Account.

G. Insurance Fund Account—This fund, when created by gas companies, is limited to an amount equal to one-twentieth of the paid-up capital of the company, including loan capital, and is available to recoup losses incurred by accidents, fire, strikes, or other such emergencies. Amounts transferred to the Insurance Fund are a charge against profits. The creation of an insurance fund is optional.

H. Renewal Fund Account; I. Statement of Coal and Oil; J. and K. Statement of Gas Made, Sold, etc.; L. Statement of Residual Products are not reproduced here. The remaining statements published contain useful statistics concerning their respective departments.

M. General Balance Sheet (see p. 695)—This account, as in the case of railway companies, deals with the floating assets and liabilities, revenue balances, and reserves of the undertaking, and includes the balance brought forward from the Capital Account. The various reserve funds, and the investments which represent them, are also set out, together with the debit and credit accounts which remain open at the close of the period.

The income of gas undertakings is mainly derived from the sale of gas, residual products, and fittings, and from the letting of cookers, heaters, etc. The expenditure chiefly consists of the purchase of the necessary raw materials, the cost of their conversion into gas, and the maintenance and renewal of the manufacturing and distributing plant. The gas sold forms the bulk of the income, and the sales are divided as between the public services supplied by contract at agreed prices, and supplies sold to private consumers at the current price and measured by meter. The statutory forms of account necessitate the separate statement of these two sources of income.

Books of Account.—Particulars of all meters issued to consumers are recorded in the Meter Register. All meters are numbered, and are inspected quarterly. The total of the gas recorded as having been consumed at the close of the previous quarter, when compared with the present record, gives the quarter's consumption, which is entered in a Meter Book based on the Meter Register. As a general rule, provision is made in this book for the record of the meter readings for a complete year The Meter Book is written up from the records of the meter inspectors, and from this book, and other sources, a Gas Ledger is prepared in tabular form, as shown at p. 698.

The form of ledger here given covers a year's records, and saves the heavy work which would be entailed if an attempt were made to keep separate ledger accounts for each consumer, and obviates the necessity of repeating the names of the consumers each quarter. The gas consumed is charged out at the current price, and shows the amount payable by each consumer. The total consumption for each quarter is checked with the total amount payable as shown by this column. The book combines the functions of a sales journal with those of a personal ledger. The items charged for gas supplied, rent of meters, cookers, etc., form, in detail, the debit side of the personal account of each consumer. The totals of the columns are added each quarter and posted to the credit of the relative nominal accounts for gas sales, meter rents, etc., in the General Ledger.

The cash paid by consumers is posted from the Cash Collected Book, which is written up from the counterfoils of the collectors' receipt books. This Cash Book takes the form shown at p. 659. Allowances are recorded in a special Allowance Book, if they are numerous, or passed through the Journal, if few in number. Bad debts are usually dealt with in the same way. The Allowances Book, like the Cash Collected Book, contains columns for gas, meters, cookers, etc. The items appearing in this book are posted to the "Allowances" column of the Gas Ledger.

Cash received for the sale of residual products and fittings, if recorded in the Cash Collected Book, are posted to the separate ledgers kept for these departments. In large companies separate books are usually kept for these two branches of the business. The receipts for each day are totalled and paid into the Bank, and extended into the column provided for that purpose Under the

GAS LEDGER.

Con-sumer's Number.	House Number.	Consumer's Name.	Quarter to March 31, 19...																								
			Amount brought forward from last quarter.			Meter Index.		Gas Consump-tion (thousands)	Amount payable.			Rents of Meters.			Rents of Cookers.			Rents of Heaters.			Cash Received.				Allow-ances.		
						From	To														Date.	Amount					
		Quayside Road—	£	s.	d				£	s	d	£	s	d	£	s	d	£	s	d		£	s.	d	£	s	d
2841	1	Alford, R. G.	3	1	1	18860	18978	11·8	2	4	0	0	5	0	0	10	0				Mar 1	3	1	1			
2842	2	Burnside, B. F.	1	12	7	10420	10585	16 5	3	4	0	0	5	0	0	10	0										

NOTE—Each opening of the Gas Ledger repeats the above ruling for four quarters in order to provide for a complete year.

CASH COLLECTED BOOK

(OR DAILY CASH BOOK).

Date	Con-sumer's Number.	Consumer's Name	Receipt Number	Folio.	Cash Received.																					Paid into Bank		
					Gas			Meter			Cooker.			Heater			Fittings			Residuals			Total					
					£	s.	d.	£	s	d	£	s	d	£	s.	d.	£	s.	d.	£	s.	d.	£	s	d	£	s.	d.

powers conferred by the Act of 1871, cash deposits are frequently demanded from consumers before the gas supply is connected. Receipts of this kind should be recorded in a special Cash Book and Ledger for deposits. In cases where deposits are demanded interest is usually allowed, and is deducted from the consumer's gas account.

The residual products from the manufacture of gas are now very numerous, and their sale forms an important part of the income of a gas undertaking. Records of these sales are kept in a Residuals Sales Journal, which is in the ordinary columnar form, with columns for coke, breeze, tar, ammonia, and other residuals. This Journal is posted to the Residuals Ledger, which is in the ordinary commercial form, and contains the personal accounts of the customers to whom the residuals have been sold.

In similar manner, the purchases are recorded in a columnar Purchases Journal, which contains columns for coal, carriage, oil, fittings, stores, plant, etc. This Journal is posted to a Bought Ledger of the ordinary commercial form. The obligation to make a careful analysis of the wages will be obvious from a perusal of the statutory form of accounts. Accurate analysis is necessary, first, as between capital and revenue, and secondly, as between the various departments of manufacture, distribution, repair, etc.

Wages.—The analysis of the wages, if available in time, can be entered weekly in the General Cash Book, and the various departmental accounts be debited direct with their respective portion of the total. Where this is not practicable, a Journal entry, debiting each departmental account and crediting wages account, can be subsequently passed through the books at convenient intervals

The receipts from the various departments are carried, in periodical totals, into the General Cash Book, which also records the payments made to trade creditors, and for salaries, wages, dividends, and other general purposes.

The General Ledger contains the necessary information for the preparation of the annual accounts. In this ledger will be found accounts for the share capital, loans, and premiums; the various assets comprising the works and plant of the undertaking, under the headings required by the statutory form of accounts; the investments; the various raw materials purchased, and the expenses incurred; and the summarised sale of gas to private and public consumers. Particulars of the sales are posted, in monthly totals, from the subsidiary Gas Ledger. The consumers are treated, for General Ledger purposes, as one individual. The total of the gas consumed, and the total of the meter and other rents accrued, are debited to the Consumers' Account, and credited to Sale of Gas Account, Rent of Meters Account, etc. The total of the cash received, bad debts incurred, and allowances granted, are treated in similar manner, so that the balance outstanding upon the General Ledger Account agrees, at any balancing period, with the details shown in the Gas Ledger. It will thus be seen that the General Ledger of a Gas company approximates closely

to that used in the case of Banks, and embraces, in itself, a condensed but complete record of the company's financial transactions and position. The Trial Balance of the General Ledger, kept upon these lines, will provide the necessary material for the preparation of the annual accounts in the proper statutory form.

By S. 35 of the *Gas Works Clauses Act*, 1871, the accounts of gas undertakings, in the prescribed form, made up to the preceding December 31st, must be forwarded on or before the 25th day of March in each year to the local authority of the district in which they operate. Copies of these accounts are available to any member of the public upon payment of one shilling. The form of accounts prescribed in Schedule B of the above Act may be altered by the Board of Trade to meet the particular requirements of any undertaking "with the consent of the undertakers."

Income Tax.—For Income Tax purposes, gas undertakings were formerly assessed on the basis of the preceding year's profits, under Sch. A, No. III, R. 3. The *Finance Act*, 1926, S 28 transferred the assessment to Sch D, Case I, but without alteration of the special rules applying to this and similar undertakings. No deductions are allowed from profits for sinking fund or similar provisions, even though these may be compulsory under the terms of the special Act or Order. The practice as to allowances for Wear and Tear has already been dealt with, and, as in other commercial cases, the details are a matter of arrangement with the local inspector, or the commissioners Expenses incurred in obtaining an Order under S. 1, *Gas Regulation Act*, 1920, are allowed as deductions.

ELECTRIC LIGHTING COMPANIES.

The *Electric Light Act*, 1882, prescribes certain forms of account for use by electric lighting companies. The Acts of 1888, 1899 and 1909, in conjunction with the Board of Trade rules, embody other important regulations in connection with electricity undertakings. As in the case of gas companies, electric lighting companies operate under special Acts of Parliament, or under Provisional Orders, granted by the Board of Trade, usually for a period of forty-two years.

System of Book-keeping.—The functions of an electrical undertaking are so similar to those of a gas company, that, subject to differences in technical detail, the same system of book-keeping applies with equal usefulness to both. As in the case of gas companies, meter cards are written up from the meters, the readings of which are periodically taken by inspectors. In due course, the resulting charges find their way into the Consumers' Book, which, subject to technical differences, is in the same form and contains the same information, as that shown in the Gas Ledger at p. 698 The quarterly consumption of units is charged out to each customer at the standard price, together with any rental charges for meters, fittings, etc., and these two items, with the arrears, if any, from the previous quarter, make up the total debit against the consumer. The cash paid and the allowances appear on the credit side of the account, and the balance, if any, shows the amount outstanding. The totals of the debit columns are posted to the credit of the Electricity, Meter, and Fittings Accounts

in the General Ledger, and the Consumers' Book thus fulfils the double purpose of a sales journal and a personal ledger. The functions of the subsidiary ledgers and the remainder of the books are similar to those already described in connection with gas companies.

Typical Set of Accounts.—The accounts of the City of London Electric Lighting Company, Ltd., reproduced at pp. 702–7, furnish a typical set of accounts for an electric lighting undertaking.

The close similarity in the form of these accounts and those employed by gas undertakings will be apparent. As in the latter case, the accounts are preceded by statements of the authorised share and loan issues. The Capital Account follows, and is framed upon the usual double-account lines. The actual amount realised by the several capital issues is off-set by the various assets in acquiring which the capital has been expended. The *total* capital receipts and expenditure are carried to the Balance Sheet in place of the *balance* only, as in the case of gas companies The Revenue and Net Revenue Accounts are drafted on lines similar to those employed in gas accounts Reference to the Capital Account reproduced at p. 703 will show that special depreciation columns have been provided by this company to record the amounts written off capital assets during the year, and reference to the Reserve Account at p. 706 will show that since the formation of the company a very large sum has been appropriated for the purpose of writing down the assets. Scrutiny of the accounts of other electrical undertakings will show that similar treatment is frequently adopted, sometimes by the insertion of a special depreciation column, as in this case, and sometimes by means of credit entries printed in italics, in the "expenditure during the year" column, as in the transaction described at p. 669 in connection with railway accounts.

Depreciation.—The position of electric lighting companies with regard to depreciation is somewhat different from that of other parliamentary companies, such as railways, whose establishment and functions are regarded as permanent. Under the *Electric Lighting Act*, 1888, the tenure of electric lighting companies is limited to forty-two years, after which period the local authorities, if they so desire, have power to purchase* the undertaking at the "then value of all lands, buildings, works, materials, and plant of such undertakers." In case of dispute, such value is to be determined by arbitration. Clearly, it is necessary to provide for wastage on the assets within the statutory period unless a heavy capital loss upon compulsory sale is to be risked. There can be little doubt that in the case of some electrical undertakings owned by local authorities, owing to non-provision for depreciation, "profits" which were not earned have been transferred in relief of the rates.

* The local authorities may exercise this power of purchase within six months of the expiration of the forty-two years, or within six months of the expiration of every subsequent period of ten years.

THE CITY OF LONDON ELECTRIC LIGHTING COMPANY, LIMITED.

No. I.—STATEMENT OF SHARE CAPITAL AUTHORISED AND ISSUED AT DECEMBER 31, 19..

Description of Capital	Authorised by.	Number of Shares Issued.	Nominal Amount of Shares.	Payable per Share.	Total Paid up	Instalments Unpaid.	Remaining Unissued	Total Amount Authorised.
			£	£	£		£	£
400,000 6 % First Preference Shares	Memorandum and Articles of Association	400,000	1	1	400,000	Nil	Nil	400,000
800,000 Ordinary Shares	Memorandum and Resolution of February 24, 1897	800,000	1	1	800,000	Nil	Nil	800,000
300,000 8 % Second Preference Shares ..	Resolution, April 14, 1920	300,000	1	1	300,000	Nil	Nil	300,000
£500,000 as yet undenominated	Resolution, April 14, 1920	Nil			Nil		500,000	500,000
					£1,500,000	Nil	£500,000	£2,000,000

No. II—STATEMENT OF LOAN CAPITAL AT DECEMBER 31, 19 ..

Description of Loan	Created.	Issued and Received	Borrowing Powers.
	£	£	
Five per cent. First Debenture Stock (redeemable at £125 %).. .	400,000	400,000	The Directors are authorised to borrow a total amount which, including the Debenture Stocks of the Company outstanding and any premium payable thereon on redemption, shall not at any time exceed the subscribed capital of the Company.
Four and a half per cent Second Debenture Stock (redeemable at Par)	400,000	300,000	

No. III.—CAPITAL ACCOUNT AT DECEMBER 31, 19..

DR.

Item No	Expenditure.	Total to Dec 31, 1920 £	s	d.	Added during Year £	s	d.	Written off during Year £	s	d.	Total to Dec. 31, 1921. £	s	d
1	To Machinery & Plant, Boilers, Pumping, Feed-heating Appliances, Engines, Dynamos, Alternators and Exciters	584,852	19	1	210,052	0	2	7,345	13	8	787,559	5	7
2	,, Mains (including cost of laying and re-paving)	775,273	14	10	50,978	4	3	3,397	13	3	822,854	5	10
2a	,, Wiring and Fittings on Hire .	373	16	7				36	5	3	337	11	4
3	,, Transformers and Accessories .	72,312	4	6	23,585	14	2	24,671	17	4	71,226	1	4
4	,, Meters and Electrical Instruments	95,519	10	0	6,923	18	2	1,768	1	5	100,675	6	9
5	,, Lamps and Accessories on Consumers' premises	5,016	7	2							5,016	7	2
6	,, Tools and Plant .. .	20,026	4	11	637	12	5	13,453	8	2	7,210	9	2
7	,, Costs of obtaining three Provisional Orders under agreements with Contractors, and expenses in connection with 1893 1900, and 1908 Acts, etc	13,784	6	4							13,784	6	4
8	,, Office Furniture and Fixtures, *less* depreciation charged against Revenue	1,057	13	7	161	17	0				1,219	10	7
	£	1,568,216	17	0	292,339	6	2	50,672	19	1	1,809,883	4	1
9	,, Buildings	269,771	4	2	24,681	19	0	1,651	19	7	292,801	3	7
10	,, Freehold and Leasehold Land and Buildings including Law Charges incidental to acquisition ..	159,678	6	1							159,678	6	1
11	,, Warehouses and other works at Wool Quay	39,717	1	4							39,717	1	4
12	,, Artisans' dwellings and other premises sub-let at Bankside, etc. (cost of sites included in Item No. 10) .	9,605	2	7				4,877	8	7	4,727	14	0
13	,, SOUTHWARK ORDER, 1891—Cost of obtaining Provisional Order, Expenditure on Mains, Meters, etc	65,669	18	4	8,724	14	11	1,109	6	3	73,285	7	0
	Total .. . .. . £	2,112,658	9	6	325,746	0	1	58,311	13	6	2,380,092	16	1

CR.

Item No	Receipts	Total to Dec 31, 19... £	s	d.
1	By 800,000 Ordinary Shares of £1 each	800,000	0	0
2	,, 400,000 6 % First Preference Shares of £1 each	400,000	0	0
3				
4	,, 300,000 8 % Second Preference Shares of £1 each	300,000	0	0
5	,, 5 % First Debenture Stock	400,000	0	0
6	,, 4½ % Second Debenture Stock	300,000	0	0
		2,200,000	0	0
	LIABILITY. ,, Premium due on redemption of First Debenture Stock provided out of Reserve Account..	100,000	0	0
	Amount advanced from Reserve Funds	80,092	16	1
	£	2,380,092	16	1

No. IV.—REVENUE ACCOUNT FOR TWELVE MONTHS ENDED DECEMBER 31, 19...

DR. CR

Item No.	Expenditure	£	s	d	Item No	Income	£	s	d.
	GENERATION OF ELECTRICITY.								
1	To Coal and other Fuel, including dues, carriage, unloading, storing, and all expenses of placing the same on works	175,121	15	5	1	By Sale of Current	635,473	19	4
2	„ Oil, Waste, and Engine-room Stores	1,764	0	10					
3	„ Water	871	15	1	2	„ Revenue under Contracts	3,081	19	4
4	„ Proportion of Salaries of Engineer and Assistants	26,492	19	2					
5	„ Wages and Gratuities at Generating Station	47,165	14	10	3	„ Revenue from Street Lighting	10,244	0	1
6	„ Sundry Expenditure	2,677	7	8					
7	„ Repairs of—				4	„ Meter Rentals	17,203	9	11
	Buildings	1,656	13	5					
	Boilers, Heaters, etc	8,318	0	9	5	„ Rents receivable	9,621	3	11
	Engines, Condensers, Dynamos, and Exciters	1,655	15	8					
	Transformers, Balancers, etc	78	18	4	6	„ Transfer and Probate Fees	167	8	6
	Coal Conveyor, Cranes, etc.	1,171	19	4					
	Other Machinery, Instruments and Tools	3,910	16	6	7	„ Sundry Receipts and Testing Fees	663	15	8
	Generation Expenses	270,885	17	0					
	DISTRIBUTION OF ELECTRICITY.								
8	„ Proportion of Salaries of Engineer and Assistants	5,809	0	0					
9	„ Attending Mains, Street Boxes, and Distributing Sub-Stations	6,351	3	8					
10	„ Repairs and Maintenance of Meters, Mains, and Distributing Sub-Stations	8,820	3	7					
11	„ Maintaining and Trimming Arc Lamps on Consumers' Premises, Carbons, and Sundry Expenses	2,131	4	3					
12	„ Street Lighting, Repairs, Maintenance, Carbons, and Trimming Expenses	9,688	0	0					
	Generation and Distribution Expenses	303,685	8	6					
	RENTS, RATES, AND TAXES.								
13	„ Rents and Wayleaves	15,435	15	9					
14	„ Rates and Taxes	81,933	8	10					
	MANAGEMENT EXPENSES								
15	„ Directors' Remuneration, Salaries of Joint Managing Directors, Secretary, Clerks, Collectors, etc	26,583	9	9					
16	„ Printing and Stationery	2,199	18	3					
17	„ General Establishment Charges	1,178	9	8					

Item No.		£	s.	d.	Item No.		£	s.	d.
18	,, Postages and Stamps	1,037	3	7					
19	,, Advertising, etc	1,000	6	10					
20	,, Meter Reading	2,705	0	3					
21	,, Auditors' Fees	231	14	0					
22	,, Trustees' Fees	210	0	0					
23	,, Legal Charges	693	17	0					
	SPECIAL CHARGES								
24	,, Rebates, Commissions, etc	3,006	3	6					
25	,, Testing of Meters	645	1	11					
26	,, Insurances ..	3,943	13	11					
27	,, Depreciation on Office Furniture and Fixtures	105	15	4					
28	,, Repairs *re* Properties sub-let	497	1	5					
	Total Expenditure	445,142	8	6					
	,, Balance, being Revenue for period, carried to Net Revenue Account	231,313	8	3					
	£	676,455	16	9		Total Income .. .. £	676,455	16	9

No. V.—NET REVENUE ACCOUNT FOR TWELVE MONTHS ENDED DECEMBER 31, 19...

Dr. Item No			£	s	d	Cr. Item No.			£	s.	d.
1	To Interest on £400,000 5 % First Debenture Stock, *less* Tax—year to December 31 1921	£14,000 0 0				1	By Balance from last Account	£109,632 17 3			
	,, Interest on £300,000 4½ % Second Debenture Stock, *less* Tax—year to December 31, 1921	9,450 0 0					*Less* Dividends and bonus declared March 4, 1921	85,983 2 0			
			23,450	0	0				23,649	15	3
2	,, Interest on Loans from Bankers, Deposits, etc		5,823	4	7	2	,, Balance from Revenue Account to December 31, 1921, as above		231 313	8	3
3	,, Amount transferred to Reserve Account		85,000	0	0	3	,, Dividends on Investments (*less* Income Tax)		6,018	12	0
3a	,, Amount transferred to Reserve Account for Leasehold Redemption		391	10	9	4	,, Discounts on Purchases		1,592	19	3
4	,, Amount transferred to Reserve for Bad and Doubtful Debts		2,000	0	0	5	,, Stock Adjustment..		110	9	1
5	,, Amount written off Cost of Investments		10,000	0	0						
6	,, Provident and Benevolent Funds and National Insurance Acts		3 776	18	5						
7	,, Balance as per General Balance Sheet		132,243	10	1						
		£	262,685	3	10			£	262,685	3	10

No. VI.—RESERVE ACCOUNT AT DECEMBER 31, 19..

Dr. Item No.		£	s.	d.	Cr. Item No.		£	s.	d.
1	To Total amount appropriated in writing off works dismantled and replaced, and other items during the period 1891–1920 Of which has been written off Capital Account, £751,169 8s. 3d.	1,070,514	7	3	1	By Total amount provided from Revenue and other sources during the period 1891–1920	1,405,245	11	10
2	,, Amount written off Capital for year 1921	58,311	13	6	2	,, Value of old stores resulting from works dismantled in 1921 (mostly sold)	20,950	7	4
3	,, Reserve for Special Contingencies	2,516	2	8	3	,, Amount transferred from Revenue	85,000	0	0
4	,, Expenses in connection with New Issue of Shares, less premium received on New Ordinary Shares	14,757	13	6	4	,, Amount transferred from Revenue in respect of Leasehold Redemption	391	10	9
5	,, Balance at December 31, 1921	365,487	13	0					
		£1,511,587	9	11			£1,511,587	9	11

No. VII.—GENERAL BALANCE SHEET AS AT DECEMBER 31, 19...

DR.

Item No.	Capital, Liabilities, etc		£	s.	d.
1	To CAPITAL ACCOUNT—Amount received as per Statement No III		2,200,000	0	0
1A	,, PREMIUM DUE ON REDEMPTION OF FIRST DEBENTURE STOCK		100,000	0	0
2	,, SUNDRY TRADESMEN and others, amount due for construction of Plant and Machinery, Stores, etc		48,629	18	2
3	,, SUNDRY CREDITORS on Open Accounts .		103,411	11	8
4	,, INTEREST ON DEBENTURE STOCKS accrued to date		11,725	0	0
5	,, UNCLAIMED DIVIDENDS		303	9	1
6	,, SUNDRY DEPOSITS from Employees		65,288	6	6
7	,, SUNDRY DEPOSITS from Consumers		13,676	11	6
8	,, SUNDRY DEPOSITS from Tenants		29	17	9
9	,, RESERVE FOR BAD AND DOUBTFUL DEBTS	£2,631 5 11			
	Less Debts written off during year	376 15 1			
			2,254	10	10
10	,, RESERVE FOR SPECIAL CONTINGENCIES		15,077	11	0
11	,, RESERVE ACCOUNT (Statement No VI)		365,487	13	0
12	,, NET REVENUE ACCOUNT—				
	Balance at credit thereof ..	£132,243 10 1			
	Less Dividend paid on account				
	On £400,000 First Preference Shares (less Tax) £8,400 0 0				
	On £300,000 Second Preference Shares (less Tax) 1,487 10 0				
	On £705,950 Ordinary Shares (less Tax) 24,708 5 0				
	On £94,050 New Ordinary Shares (less Tax) 603 9 9				
		35,199 4 9			
	Leaving to be dealt with as proposed in Report, viz :—		97,044	5	4
		£	3,022,928	14	10

CR.

Item No	Capital Expenditure and Assets		£	s	d.
1	By CAPITAL EXPENDITURE as per Statement No. III ..		2,380,092	16	1
2	,, STORES at Stations and elsewhere		92,443	7	1
3	,, SUNDRY DEBTORS, for current supplied—				
	To September, 1921	£672 12 2			
	To December, 1921	213,479 0 3			
			214,151	12	5
4	,, OTHER DEBTORS and payments in advance.. .. .		33,582	0	5
5	,, CASH AT BANKERS and in hand		30,874	15	7
6	,, INVESTMENTS—(At Cost, *less* written off £10,000 in 1919, £10,000 in 1921) . . . . (Including Shares in Bankside Finance and Industries, Limited)		271,784	3	3
		£	3,022,928	14	10

The Revenue and Net Revenue Accounts reproduced at pp. 666–7 show that, during the year, provision has been made for (1) depreciation of office furniture and fittings; (2) additions have been made to general reserve and leasehold redemption accounts; (3) an amount has been written off stores; and (4) a reserve for bad and doubtful debts exists. These reserves are set out in the General Balance Sheet.

Balance Sheet.—The General Balance Sheet begins with the total receipts and expenditure as detailed in the Capital Account, and, as in the case of gas companies, contains particulars of the floating assets and liabilities, revenue balances, and reserve funds.

The accounts of electric lighting companies are usually presented annually.

By S 9 of the *Electric Lighting Act*, 1882, copies of the accounts for the year ended December 31st must be forwarded to the Board of Trade on or before March 25th following. Where a local authority are the undertakers, March 31st and June 30th are substituted for these dates (*Electric Lighting Act*, 1909, S 12). The accounts are audited by the Board, but, in addition, the companies usually have their accounts audited by professional auditors.

WATER COMPANIES.

Although they are under no statutory obligation to do so, water companies almost invariably adopt the double-account system, and model their accounts closely upon the lines employed by gas undertakings.

Water Company Acts.—Under the *Water Works Clauses Act*, 1847, the dividends of water companies are limited to the rate prescribed in the Act, or Order, or to 10 % on the paid-up capital, in cases where no rate is prescribed. Such dividends are cumulative should the profits of any one year be insufficient to meet them. Surplus profits, after paying the maximum dividend, must be invested and allowed to accumulate as a Reserve Fund. This fund must not exceed an amount equal to one-tenth of the nominal capital of the undertaking; and it may be utilised to meet any deficiency in the maximum dividend, or to defray extraordinary claims or demands. When the fund reaches the prescribed limit, the income derived from its investment must be applied to the general purposes of the company.

Companies within the Metropolitan district were formerly subject to the provisions of the *Metropolitan Water Acts of* 1852 *and* 1871. Under the *Metropolis Water Act of* 1902, Metropolitan companies were brought under the control of the Water Board, which was established to acquire and manage water undertakings within the Metropolitan district. Companies subject to the Act of 1847 must send an account for the preceding financial year, on or before January 31st in each year, to the Clerk of the Peace in the county where the waterworks are situated.

Accounts.—The close similarity of the published accounts of a water company to those of a gas undertaking will be noticed

THE COLNE VALLEY WATER COMPANY.

STATEMENT OF STOCK AND LOAN CAPITAL, JUNE 30, 19...

Acts of Parliament authorising the raising of Capital	Description of Capital	Maximum Dividend authorised.	Total paid up.	Remaining to be issued and called up	Total amount authorised.
			£	£	£
36 Vic., 1873	"A" Ordinary Stock	10 %	100,000	..	100,000
36 Vic, 1873	"B" Ordinary Stock	7 %	50,000	..	50,000
48 and 49 Vic, 1885	"C" Ordinary Stock	10 %	81,880	..	} 100,000
48 and 49 Vic, 1885	4 % Preference Stock		18,120	..	
36 Vic, 1873, and 48 and 49 Vic, 1885	4 % Perpetual Debenture Stock	.	77,500	..	77,500
7 Edwd VII, 1907	"D" Ordinary Stock	7 %	{ 85,000 Premium 46,525 }	108,475	240,000
36 Vic, 1873, 48 and 49 Vic, 1885, 7 Edward VII, 1907, and 12 and 13 Geo V, 1922	7 % Redeemable Debenture Stock (A)	..	50,000	..	} 167,500
	7 % Redeemable Debenture Stock (B)	..	63,263	.	
	Redeemable or Perpetual Debenture Stock	.	..	54,237	
12 and 13 Geo. V, 1922	"E" Ordinary or Preference Stock	7 or 8 %	..	300,000	300,000
12 and 13 Geo. V, 1922	Redeemable or Perpetual Debenture Stock		..	150,000	150,000
			£572,288	£612,712	£1,185,000

CAPITAL ACCOUNT, JUNE 30, 19...

DR.

	Expenditure to Dec 31, 1921. £	s	d	Expenditure during Half-year to June 30, 1922 £	s	d	Total Expenditure to date of Account £	s	d
To General Expenditure	615,797	18	8	9,743	14	1	625,541	12	9
" Office Furniture and Fittings	785	13	1	46	0	0	831	12	1
" Plumbing Plant and Tools	146	4	3				146	4	3
" Meters	10,671	10	3	442	14	5	11,114	4	8
" Premiums expended	1,967	5	11				1,967	5	11
	629,368	12	2	10,232	8	6	639,601	0	8
" Balance (carried to General Balance Sheet)							4,134	12	9
£	629,368	12	2	10,232	8	6	643,735	13	5

CR.

	Receipts to Dec 31, 1921 £	s	d	Receipts during Half-year to June 30, 1922 £	s	d	Total Receipts to date of Account. £	s	d
By "A" Ordinary Stock (1873 Act)	100,000	0	0				100,000	0	0
" "B" Ordinary Stock (1873 Act)	50,000	0	0				50,000	0	0
" "C" Ordinary Stock (1885 Act)	81,880	0	0				81,880	0	0
" "D" Ordinary Stock (1907 Act)	85,000	0	0				85,000	0	0
" Preference Stock	18,120	0	0				18,120	0	0
" Debenture Stock	77,500	0	0				77,500	0	0
" £50,000 7% Red Deb. Stock (A)	48,500	0	0				48,500	0	0
" £63,263 7% Red Deb. Stock (B)	63,263	0	0				63,263	0	0
	524,263	0	0				524,263	0	0
" Premiums	119,472	13	5				119,472	13	5
£	643,735	13	5				643,735	13	5

REVENUE ACCOUNT, JUNE 30, 19...

DR. CR.

	Half-year ending June 30, 1922			Total.				Half-year ending June 30, 1922			Total.		
	£	s	d	£	s	d.		£	s	d	£	s	d
To Engine Working Expenses—							By Water Rates (including Building Supply Rates)	48,399	17	11			
Fuel	7,899	11	5				,, *Meter Rents*	961	16	5			
Oil	458	13	5				,, Registration Fees	6	15	0			
Sundries	55	2	7				,, Sale of Refuse Chalk	227	3	7			
,, Wages	4,598	11	1				,, Field Rental	27	11	10			
,, Lime	1,712	15	7								49,623	4	9
,, Insurance of Works, etc.	48	3	0										
,, Engine Repairs	1,764	5	5										
,, Pipe System Expenses and Repairs	1,[illegible]2	8	2										
,, General Working Expenses and Repairs	3,2[illegible]	4	11										
,, Meter Expenses and Repairs	615	2	8										
,, Directors' Fees	543	15	0										
,, *Proportionate amount of Consulting Engineers'* Salary	52	10	0										
,, Auditors' Fees	52	10	0										
,, Office Salaries	2,175	6	5										
,, Office Expenses	115	5	1										
,, Stamps, Stationery, and Printing	536	13	2										
,, Sundries and Petty Expenses	102	15	10										
,, Rates and Taxes (exclusive of Income Tax)	5,171	15	3										
,, Bad Debts	41	15	9										
,, Superannuation	208	15	0										
,, Law and Incidental Expenses	172	1	6										
Total Expenditure				31,114	1	3							
,, Balance (carried to Dividend and Interest Account)				18,509	3	6							
			£	49,623	4	9	Total Receipts			£	49,623	4	9

CONTINGENCY FUND ACCOUNT, JUNE 30, 19...

DR. CR

	£	s	d		£	s	d
To Amount expended on renewal of Mains, etc.	328	4	3	By Balance at December 31, 1921	12,619	7	9
,, Balance (carried to General Balance Sheet)	14,291	3	6	,, Amount transferred from Dividend and Interest Account	2,000	0	0
£	14,619	7	9	£	14,619	7	9

DIVIDEND AND INTEREST ACCOUNT, JUNE 30, 19...

Dr.

	£	s.	d.	£	s.	d.
To Interest on Preference Stock paid April 1, 1922	362	8	0			
Less Income Tax at 6s in the £	108	13	10	253	14	2
„ Interest on Debenture Stock payable July 1, 1922	1,550	0	0			
Less Income Tax at 5s. 6d in the £	426	4	1	1,123	15	11
„ Interest on 7 % Redeemable Debenture Stock (A and B) payable July 1, 1922	3,964	4	1			
Less Income Tax at 5s. 6d in the £	1,089	9	0	2,874	15	1
„ Amount transferred to Contingency Fund Account				2,000	0	0
„ Income Tax				2,904	0	10
„ Balance (carried to General Balance Sheet)				11,078	8	1
			£	20,234	14	1

Cr.

	£	s.	d.	£	s.	d.
By Balance at December 31, 1921	7,382	10	11			
Dividend paid April 1, 1922 .. £10,364 4 11 *Less* Income Tax at 6s. in the £ 3,108 14 1	7,255	10	10	127	0	1
„ Profit for Half-year ending June 30, 1922 . ..				18,509	3	6
„ Interest on Deposits				95	18	1
„ Interest on 5½ % Treasury Bonds, etc.				1,502	12	5
			£	20,234	14	1

GENERAL BALANCE SHEET, JUNE 30, 19...

Dr.

	£	s.	d.
To Balance of Capital Account	4,134	12	9
„ Balance of Dividend and Interest Account	11,078	8	1
„ Balance of Contingency Fund Account	14,291	3	6
„ Outstanding Accounts due by the Company (including Interest on Debenture Stock, payable July 1, 1922)	22,127	5	8
£	51,631	10	0

Cr.

	£	s.	d.	£	s.	d.
By Stores on hand :—						
Coal, Oil, Pipes, etc.	4,535	9	2			
House Stores	510	0	0	5,045	9	2
„ Debtors :—						
For Water Rates	14,154	6	9			
For Sundries	807	19	7	14,962	6	4
„ Investment :—						
£10,000 5½ % Treasury Bonds, costing				9,800	0	0
„ Cash Balances :—						
On Deposit	19,000	0	0			
At Bankers	1,405	18	7			
In hand	1,417	15	11	21,823	14	6
			£	51,631	10	0

from a perusal of the accounts of the Colne Valley Water Company, which are reproduced at pp. 709–11. The book-keeping of water companies is also very like that employed by gas undertakings The charge made for water is either by meter, or is based upon the rateable value of the house served. Trade or temporary supplies are frequently the subject of special agreement.

The form of a water company's Consumers' Ledger is given in the author's *Book-keeping and Accounts*, and its functions are there explained. The other books of account, subject to the difference in the commodity supplied, approximate very closely to those already described in connection with gas companies

EXAMINATION QUESTIONS.

1. What is the double-account system ? State briefly its objects and how they are attained. (*Central Association Accountants.*)

2. Differentiate between the terms "double-account system" and "double-entry system."

In what classes of undertaking is the former system used ? (*London Chamber Commerce.*)

3. To what class of enterprise does the system of book-keeping known as the double-account system apply ? Briefly explain its distinctive features as compared with the single-account system. (*Royal Society Arts*)

4. Submit specimens of the "Receipts and Expenditure on Capital Account" and "General Balance Sheet" of a railway company. (*London Chamber Commerce*).

5. Sketch the form of Balance Sheet as provided by law for one of the following undertakings: (*a*) railway company, (*b*) insurance company, entering imaginary figures therein. (*Central Association Accountants*)

6. Select an undertaking which is under statutory obligation to present its accounts upon the double-account system, and submit a *pro forma* Balance Sheet Explain how the Balance Sheet you draft differs from a Balance Sheet prepared upon the single-account principle. (*Royal Society Arts.*)

7. Distinguish between a double-entry system and a double-account system. In what cases is the double-account system compulsory ? Point out the advantages and defects of this system. (*Incorporated Accountants*)

8. Briefly contrast the double- and single-account systems of presenting accounts. It is sometimes stated that no adjustments of the assets shown in the Capital Account of a parliamentary company are possible. Criticise this statement. (*Chartered Institute Secretaries.*)

9. In what way do the accounts of railway, gas, and water companies differ from those of ordinary trading companies ? Sketch a Balance Sheet of a railway owning steamships and tugs. (*Chartered Accountants.*)

10. What are the peculiarities of gas accounts and railway accounts ? Give an example of a Capital Account and Balance Sheet of one of them only. (*Chartered Accountants.*)

11. "Companies to which the double-account system is applied are deemed to be permanent undertakings, and, provided they maintain an equivalent equipment to that with which they started, provision for depreciation is unnecessary."

Do you approve of this statement ? Give reasons for your opinion, and, if you consider that such provision is necessary, state how it can be effected in accounts prepared under this system. (*Chartered Accountants.*)

12. Are the published accounts of gas companies subject to any statutory regulations ? Give the rulings you would recommend for any two of the principal books employed by gas companies, and briefly describe the uses of the books you illustrate. (*London Chamber Commerce.*)

13. A railway company divides its Ordinary Stock into Preferred and Deferred Stocks, issuing £100 of each for £100 of the Ordinary. The Inland Revenue Office looks upon this as an increase of Nominal Capital, and demands the tax at 5s. % under the Finance Act, 19 . Do you consider this a proper demand? Give your reasons. Supposing the company has to pay this tax, would you treat it as a charge to capital or revenue? Why? (*Chartered Accountants.*)

14. There is a distinct difference when dealing with depreciations in double accounts, as compared with the single-account system. How is depreciation dealt with in the double-account system? (*National Union Teachers.*)

15. Why do not railway, dock, canal, and tramway companies charge Profit and Loss with Depreciation? and what should an auditor require to enable him to judge if the plant, etc., has been fairly maintained? (*Chartered Accountants.*)

16. What is the usual custom with undertakings, whose accounts are compulsorily kept on the "double-account system," as to providing for the wastage of their assets?

If such provision be made, how does it generally appear in the published accounts? (*Royal Society Arts.*)

17. How are depreciation and renewals of fixed assets treated in the accounts of an electric light undertaking? (*Chartered Accountants.*)

18. (*a*) What undertakings, in general, keep their accounts upon the double-account system? (*b*) What is the principal, if not the sole, reason for employing this form of accounts? (*National Union Teachers.*)

19. What is the difference in principle between the balance of the Capital Account of a British railway company as shown in the Statutory Form of Accounts and the Statement of Capital Account of a limited company as shown in the annual Balance Sheet? State briefly your duties as auditor in each case with reference to such accounts. (*Chartered Accountants.*)

20. State briefly any defects which the double-account system of accounting presents. (*London Chamber Commerce.*)

21. Briefly describe the form in which the accounts of gas undertakings are published. Explain the operation of the "sliding scale" regulations with regard to gas companies. (*London Chamber Commerce.*)

22. Give a *pro-forma* example of a Capital Receipts and Expenditure Account under the double-account system. State briefly how depreciation can be provided for under this system of accounting. (*Royal Society Arts.*)

23. A special form of accounts is prescribed by statute for (*a*) railway companies; (*b*) gas companies, (*c*) building societies. Give three salient features out of each form as prescribed. (*Chartered Accountants.*)

24. Each of two railway companies has parliamentary powers "to borrow on mortgage any sum not exceeding in the whole £300,000," no rate of interest being specified. One company issues a 4 % Debenture Stock at a discount of 5 %, thus receiving £285,000; the other, having better credit, is able to issue a similar stock at a premium of 5 %, thus receiving £315,000. Has the latter company exceeded its powers, and has the former exhausted its powers? Give your reasons. (*Chartered Accountants.*)

25. According to S. 13 of the Regulation of Railways Act, 1868, a company, subject to certain conditions, can divide its paid-up Ordinary Stock into Preferred and Deferred Ordinary Stock. What are the advantages of such a procedure? Name the conditions as stated in the Act. (*Central Association Accountants.*)

26. Rule a form of a water company's Consumers' Columnar Ledger. Enter therein six entries, and briefly explain the advantages of such a Ledger over one of the ordinary kind. (*London Chamber Commerce.*)

27. Give the ruling of a Rates Ledger suitable for a water company or municipal body, and illustrate its use by inserting a few items. (*Chartered Accountants.*)

28. What do you understand by the double-account system, and in what cases is it employed ?

A gas company laid down a main at a cost of £50,000. Some years later, owing to increased demand, the company laid down an auxiliary main for a quarter of the length of the old main for £15,000, and replaced the rest of the main at a cost of £60,000, the cost of laying mains having increased by 15 % in the meantime.

How would you apportion the new expenditure between capital and revenue, having regard to the increased cost of materials and wages, and the fact that the old materials realised £12,000 ? (*Incorporated Accountants.*)

29. From the following Balance Sheet, drawn according to ordinary commercial methods, construct Balance Sheets according to the requirements of the double-account system.

THE CORNHILL AND LOTHBURY RAILWAY COMPANY.

BALANCE SHEET, DECEMBER 31ST.

LIABILITIES.	£	ASSETS.	£
Ordinary Stock issued	3,000,000	Cost of Line	2,990,000
4 % Debenture Stock issued	1,000,000	Cost of Rolling Stock and Equipment ..	890,000
Sundry Creditors ..	100,000	Stores, Fuel, and Supplies in hand	110,000
Revenue Account, balance	60,000	Sundry Debtors	90,000
		Cash at Bank	80,000
	£4,160,000		£4,160,000

30. From the following particulars draw up (1) the Balance Sheet of a company as on June 30, 19.., on the single-account system, and (2) the Capital Account and General Balance Sheet as on the same date on the double-account system Nominal Capital, £300,000; Subscribed Capital, £260,000, Debentures at 5 %, £40,000, Trade Creditors, £16,000, Reserve, £15,000, Trade Debtors, £38,000, Cash in hand and in Bank, £35,000; Investments (Reserve), £15,000; Stock, £24,000

Expenditure to the previous June 30: Land, £12,000; Shafting, etc., £135,000; Machinery, £40,000, Buildings, £13,000.

The expenditure during the year ended June 30, 19.., was £25,000, £26,000, and £10,000 on the last three items, and a Depreciation Fund of £26,000 had been created. The balancing item of £16,000 may be taken, for the purposes of this question, as profit of the company.

In what cases is the double-account system compulsory by Act of Parliament ?

What advantages and disadvantages does this system possess ?

Illustrate your answer from the above problem. (*Incorporated Accountants.*)

31. Briefly describe the difference between the double-account and single-account systems, and state where the following items would appear in the accounts of (*a*) a company created by Special Act of Parliament, and (*b*) a company incorporated under the Companies Acts. (1) Amounts received in connection with shares subsequently forfeited; (2) premium received on new shares issued, (3) discount and expenses on Debentures issue, (4) Preliminary Expenses. (*London Chamber Commerce.*)

32. A railway company had an issued and called-up capital of £15,000,000 Ordinary and £25,000,000 3 % Preference Stock, and 3 % Debenture Stock amounting to £12,000,000.

It had also at the credit of "Premium on Stocks Account," £800,000. The values of the respective stocks on the market were 85 %, 75 %, and 80 %.

It was resolved to issue and call up £500,000 Ordinary Stock at 80 %; £500,000 Preference Stock at 70 %; £300,000 Debenture Stock at 75 %; and afterwards to split the whole of the Ordinary Capital into "Preferred" and "Deferred" Stocks, giving the shareholders £100 of each class of stock for every £100 of stock held by them

Make the entries in the railway company's books, and show how the capital will appear in the company's printed accounts. (*Chartered Accountants.*)

33. Give the forms of accounts for railways as prescribed by Act of Parliament, namely: Receipts and Expenditure on Capital Account; Revenue Account; Net Revenue Account; General Balance Sheet; and enter up each of the following items in its appropriate account:—

	£	£
Expenditure on Line open for Traffic ..	1,000,000	
Expenditure during Current Half-year on Traffic	210,000	
Share Capital received		1,100,000
Share Capital received during Current Half-year		50,000
Maintenance of Ways, Works, and Stations	10,000	
Traffic Receipts		100,000
Interest on Loans	1,000	
Cash at Bankers	70,000	
Temporary Loans		50,000
General Stores..	9,000	
	£1,300,000	£1,300,000

(*Incorporated Accountants.*)

34. Draw out from the following Trial Balance of the Wormwood Scrubs Gas Company, Ltd., Capital Account only, December 31st:—

	Dr. £	s.	d.	Cr. £	s.	d.
Capital—						
First Issue, 10,000 Shares of £10 each				100,000	0	0
Second Issue, 25,000 Shares of £10 each				50,000	0	0
Debentures, £100,000, redeemable by annual drawings, 1,000 of £100 each				83,000	0	0
Unclaimed Dividends				315	9	2
Interest on Bonds, six months ..				4,150	0	0
Income Tax				604	3	10
Brown, J., Director				210	0	0
Smith, W., Director				210	0	0
Walton, J., Director				210	0	0
Edwards, H., Director				210	0	0
Cathcart, J. S., Director				210	0	0
Sundry Creditors				8,915	3	11
Profit and Loss				18,604	10	2
National Provincial Bank	30,910	2	6			
Office Cash	814	6	3			
Petty Cash	24	4	11			
Works	170,748	14	6			
Coals	16,400	0	0			
Purifying Materials	1,710	10	4			
Fittings	8,416	3	10			
Public Lamps	10,000	0	0			
Sundry Debtors	27,615	4	9			
	£266,639	7	1	£266,639	7	1

(*Chartered Accountants.*)

35. The following are the balances in respect of Revenue of the W. N & L. Railway Company at December 31st: Passenger Traffic, £2,242,130 17s. 1d.; Merchandise Traffic, £2,542,705 6s 6d.; General Charges, £191,194 14s. 4d.; Parcel, etc., Receipts, £559,184 13s. 7d.; Mails, £107,615 5s. 11d.; Compensation for Accidents and Losses, £81,998 0s 7d.; Live Stock Traffic, £96 421 8s. 1d.; Maintenance of Way, £656,156 1s.; Locomotive Power, £1,260,844 0s. 3d.; Minerals Traffic, £1,804,304 18s 4d.; Rents £158,277 15s. 11d.; Repairs to Properties, £26,994 14s.; Transfer

Fees, £896; Carriage and Wagon Repairs, £378,810 4s. 3d.; Payment for Mileage of Carriages and Wagons of other Companies, £27,109 6s; Traffic Expenses, £1,769,188 8s. 8d.; Law Charges, £16,697 4s. 8d.; Parliamentary Expenses, £6,700; Rates and Taxes, £286,988 11s. 7d.; Government Duty, £25,698 8s.; Steamboat Expenses, £72,257 1s 1d.; Depreciation and Insurance on Steamers, £17,500.

Prepare the Revenue Account for the half-year. (*Incorporated Accountants.*)

36. The following are the balances of the Foreign Railway Company for the half-year ended December 31st Prepare in the prescribed form (1) Capital Account; (2) Revenue Account; (3) Net Revenue Account; (4) General Balance Sheet

	£	£
Mortgage Debenture Interest	30,000	
Mortgage Debenture Interest accrued		11,400
Prior Lien Debenture Interest	14,000	
Prior Lien Debenture Interest accrued		3,600
Cash at Bankers and in hand—		
London	11,000	
Abroad	4,000	
Interest received		35
Investments	25,000	
Loss on Exchange	3,000	
Income Tax	2,200	
Miscellaneous Receipts		150
Passenger Receipts		22,000
Freight, Storage, etc.		71,000
Steamboat Service		2,400
General Reserve Account		2,000
Special Trains		1,500
Renewal of Plant Reserve Account		2,000
Traffic Expenses	16,000	
Maintenance of Way, Works, etc.	8,000	
Transfer Fees		50
Capital Receipts (Share and Debenture)		1,463,000
Locomotive Power	10,000	
Capital Expenditure to June 30th	1,400,000	
Capital Expenditure half-year ended December 31st	27,000	
Government Subsidy for half-year ended December 31st		24,000
Repairs and Renewals of Carriages and Wagons	1,900	
Remuneration of Trustees for Debenture holders	400	
Compensations	200	
General Charges	12,000	
Net Revenue Account, balance June 30th		6,065
Dividend Account, Balance of Dividend paid for half-year ended June 30th	5,000	
Stores on hand and in transit, December 31st	25,000	
Interest and Discount	1,000	
Bills Receivable	3,000	
Bills Payable		2,850
Sundry Debtors		
London	8,000	
Abroad	15,500	
Sundry Creditors—		
London		2,000
Abroad		8,000
Unclaimed Interest		150
	£1,622,200	£1,622,200

(*Chartered Accountants.*)

37. The books of the Wellesley Electric Lighting Corporation, Ltd., show the following Receipts and Payments on Capital Account for the first year ended December 31st, 1913: Ordinary Shares of £10 each, £30,000; Preference Shares of £10 each, £25,000; Lands Purchased, £6,000; Buildings, £7,400; Machinery, £15,000; Distributing Stations, £2,000; Mains, £10,000; Transformers, £500; Meters, £1,500, Instruments, £150; Furniture, £50; Tools, £30; Provisional Order and Law Costs, £5,000.

The following additional expenditure was made during 1914: Buildings, £140; Machinery, £100; Distributing Stations, £185; Transformers, £65; Meters, £20; Instruments, £10, Tools, £10; Public Lamps, £114. Prepare the statutory Capital Account of the Company as at December 31, 1914. (*Incorporated Accountants*)

38. The following is the Trial Balance of the Durham Railway Company after the completion of the Revenue Account for the half-year ended December 31st:—

	£	£
$3\frac{1}{2}$ % Preference Stock		300,000
Ordinary Stock		500,000
4 % Debenture Stock		200,000
Lines open for Traffic	851,950	
Lines in course of Construction	5,000	
Lines not commenced	50	
Working Stock (Engines, Carriages, etc.)	130,000	
Contributions to Joint Lines	50,000	
Premiums on Stocks, etc., sold		25,000
Purchase of Grand Canal	5,000	
Cash at Bank	5,000	
General Stores, Stocks on hand	10,000	
Traffic Accounts due to Company	10,000	
Due from other Companies	1,000	
Sundry outstanding Accounts	4,000	
Debts due to other Companies		500
Sundry Tradesmen, etc.		20,000
Fire Insurance Fund		1,500
Superannuation Fund		5,000
Balance to credit of Net Revenue Account		20,000
	£1,072,000	£1,072,000

During the half-year there was an issue of £10,000 $3\frac{1}{2}$ % Preference Stock at par, which was fully subscribed and paid up; also of £20,000 Ordinary Stock fully subscribed and paid up at a premium of 5 %. The expenditure on lines open for traffic was £25,000; on lines in course of construction, £1,000; and on Working Stock, £5,000.

Make out Capital Account and Balance Sheet in proper form. (*Chartered Accountants.*)

39. The following balances relate to the Lunar Electric Supply Company, Ltd, for the year ended December 31st· You are requested to make out (*a*) Capital Account; (*b*) Revenue Account; (*c*) Net Revenue Account, (*d*) Depreciation Fund Account; (*e*) Sinking Fund Account; and (*f*) Balance Sheet as on that date. Of the balance of profit you are to appropriate £2,000 to Depreciation Fund, and £3,000 to Sinking Fund, before ascertaining the amount available for shareholders' dividend

20,000 Ordinary Shares, £5 each, fully paid, £100,000; Debenture Stock, £320,000; Lands and Charges incidental to acquisition, £136,092; Buildings and Works, £113,418; Machinery, Plant, etc, £143,175, Mains and Cost of Laying, £39,817; Tools and Loose Plant, £2,194; Accumulators, £1,023; Office Furniture and Fittings, £245; Electrical Instruments, £200; Artesian Well, £350; Law and Parliamentary Charges *re* Companies Act, £6,000; Coal, Carriage, etc, £13,404; Oil, Waste, and other Stores, £1,813; Salaries of Engineers and Officers, £1,147; Wages at Station, £3,347; Repairs and Maintenance, £780; Rents, Rates, and Taxes, £2,500; Management Expenses, £2,230; Law Expenses, £150; Insurance and Special Charges, £480;

Interest on Debenture Stock, £12,800, Interest on Bank Loan, £250; Interest on Sinking Fund Investments, £150; Receipts for Sale of Current, £45,700; Meter and other Rents Receivable, £1,705; Transfer Fees, £5; Discounts on Purchases, £70, Received for Sale of old materials, £10; Balance to credit of last Net Revenue Account, £5,402; Depreciation Fund, balance to credit, £3,000; Sinking Fund, balance to credit, £5,000; Sundry Creditors, £6,873; Bank Loan, £20,000; Capital Reserve, £4,000; Stores on hand: Coal, £2,900; Oils, Waste, etc., £1,200; Sundry Debtors, £16,500; Rates and Insurance paid in advance, £400; Investments on account of Sinking Fund, £5,000; Cash in hand and at Bank, £4,500. (*National Union Teachers.*)

40. Draw up from the following figures a Revenue Account, Net Revenue Account, and General Balance Sheet of the East and West Railway in the prescribed forms: Maintenance of Way, £7,033; Locomotive Power, £9,909; Passengers Carried, £18,418; Parcels Carried, £4,078; Rates and Taxes, £2,056; Rent Charges and Chief Rents paid, £533; Mails Carried, £669; Merchandise Carried, £13,651; Minerals Carried, £14,348; Traffic Expenses, £9,235; Rent paid on Leased Line, £2,062; Carriage and Wagon Repairs, £2,580; Interest on Debenture Stock, £4,217; Credit Balance from last half-year's Revenue Account, £576; Forged Transfers Fund, £597; Compensation (accidents and losses), £439; Debts due to other Companies, £569; Rent Charge, Stock Guaranteed Dividend, £2,602; Sundry Creditors, £11,994; Invested in Consols, £502; General Stores, Stock on hand, £10,653, Cash at Bankers, £11,038; Bank and General Interest, £80; Fire Insurance Fund, £1,716; Traffic Accounts due to Company, £7,269; Balance at credit of Capital Account, £3,432. (*Chartered Accountants.*)

CHAPTER XII

HIRE-PURCHASE ACCOUNTS—ROYALTY ACCOUNTS

HIRE PURCHASE ACCOUNTS.

A SALE of goods is usually a complete transaction as soon as it is made. The ownership of the goods passes from the seller to the buyer on delivery to him or to his agent, and thereafter once the buyer or his agent has taken delivery, the right to stop in transit is at an end, therefore no reference to this right is necessary. The seller retains no hold over the goods. The legal right of an unpaid seller who has delivered goods is restricted to the right to sue for their purchase price. In most trades, credit is allowed. The extent of the credit naturally varies with the general customs of the particular trade. Credit facilities are extended to customers to enable them to sell the goods and to pay the seller from the proceeds of sale. Wholesale transactions are operated almost entirely on these principles.

There are, however, certain forms of movable property, of durable character, which are frequently sold to purchasers on the basis of payment by agreed instalments, known as the Hire-Purchase System. In a hire-purchase transaction the buyer obtains *possession and use* of the articles immediately the hire-purchase agreement has been signed, but the legal ownership of the goods vests in the seller until the last instalment has been paid.

Nature of Contract.—In the ordinary form of hire-purchase agreement the seller contracts to let the goods to the buyer for a term of years at an agreed rate of hire payable in stated instalments, and, provided all these instalments are duly paid, he further agrees to sell the goods to the hirer upon the completion of the agreement for a nominal sum, e.g. one shilling. Should the hire purchaser fail to maintain his instalments, the agreement lapses, and the hire-seller can re-claim his goods. In this way the hire-seller is protected from loss in case of default on the part of the hire-purchaser. But the hire-seller cannot refuse to accept the hire-purchaser's payments, nor can he cancel the agreement arbitrarily to the detriment of the hirer, although the hirer can at any time bring the contract to an end, should he so desire, by failing to meet his payments. In some forms of agreement, the purchaser is bound to pay *all* the instalments provided for. They are in reality agreements of extended purchase rather than hire-purchase, and are not often

met with, owing to the fact that they are so much less favourable from the hire-purchaser's point of view. Considerable competition exists in certain sections of the hire-purchase trade, e.g. amongst house furnishers, and in such trades exceptional clauses are occasionally met with which exempt the hire-purchaser, or his executors, from payment of any further hire instalments should the hire-purchaser die, or the goods be destroyed by fire, during the currency of the agreement.

Assignment and Surrender.—Some forms of agreement permit the hire-purchaser to assign his rights to another person, others expressly exclude this privilege Some agreements carry a surrender value should the hire-purchaser desire to terminate his contract after a certain number of payments. In other cases a surrender value, although not directly obtainable under the agreement, may be secured indirectly by transferring the benefit of the agreement to a third party in return for a money consideration. Naturally, it is only in the case of valuable and lasting forms of property that any appreciable surrender value is obtainable by either process. Railway wagons, for instance, are largely acquired by collieries under hire-purchase agreements, and in their case "re-financing" by one or other of the methods indicated is a not uncommon occurrence.

Legal Ownership of Goods.—In all forms of hire-purchase agreements the legal ownership of the goods is designedly withheld from the hire-purchaser until he has duly paid all his instalments; and since, therefore, he is not the owner of the goods it follows that he cannot legally sell or pledge them. Any sale or pledge he may purport to make would be fraudulent and ineffective as against the true owner.

The forms of property that are made the subject of hire-purchase are numerous. Pianos, bicycles, encyclopædias, motor-cars, furniture, gramophones, radio receivers, and other articles of domestic or personal use are all obtainable on hire-purchase terms. Probably one of the most important examples of the application of the system is in the acquisition of railway trucks by collieries. Small locomotives for colliery and other purposes are also obtainable on the hire-purchase system. Many hotels are furnished on these terms.

Book-keeping Records.—Hire-purchase transactions call for special methods of treatment and record in the books of both buyer and seller. *Articles of personal or domestic utility*, purchased under the system, do not need our consideration from the buyer's point of view, but in trading transactions it is important that goods so purchased should be properly recorded by both parties

In addition to a proportion of the actual sale price of the goods, every instalment payable under a hire-purchase agreement necessarily includes an amount which represents compensation to the seller for (*a*) interest on the postponed payment, and (*b*) the risk of loss. The need for an allowance for interest will be obvious, and experience shows that the risk under the second heading is considerable. In many cases, goods reclaimed, owing to default, are badly damaged, and, in any case, they are second-hand, and

can only be disposed of at reduced prices. It is also a common experience to find that goods sold cannot be traced owing to fraudulent abuse of the system.

The percentage to be added to lower the risk of bad debts varies with the article sold and the class of purchaser Clearly, the risk is greater in respect of a personal luxury such as a gold watch than it is with a commercial necessity like a railway wagon. Broadly speaking, the basis on which the seller calculates his prices is the "Cash down" price plus interest, plus a reserve for bad debts, and he divides the total into a number of instalments to be paid over an agreed period.

The seller thus regards the transaction throughout as a sale for deferred payments, the hire element being imported into the agreement merely for his legal protection. The book-keeping record is based on the same assumption, the instalments received being regarded as payments on account. Obviously it would be wrong to treat instalments received as payments capable of being credited to revenue, seeing that, under the terms of the agreement, the subject-matter of the agreement becomes the property of the hire-purchaser at the end of the term.

Alternative Methods.—Two methods are employed by the seller to record hire-purchase transactions.

(i) He treats the goods delivered as stock, the question of profit being dealt with only as and when the successive instalments are paid. Or,

(ii) He treats the transaction as a sale for that portion of the agreed price which represents the value of the goods apart from interest and other charges. The amount thus debited to the purchaser is liquidated by the agreed instalments which, as we have seen, include an allowance for interest. This method involves taking credit for the whole of the seller's profit on the transaction at the moment the agreement begins to run

The Methods Contrasted.—The second method is perhaps the more theoretically accurate. It gives the period when the sale was effected the credit for the trade profit, and relegates to later periods the benefit of the interest and bad debt allowance forming part of the instalments. The results by this method are, however, liable to be falsified if any appreciable part of the contracts are not completed, and losses are subsequently incurred in disposing of the goods. The system is, perhaps, best suited to large commercial transactions wherein the interest factor is of principal importance The first method errs, if at all, on the side of caution, since it provides ample reserves for loss on unfulfilled contracts The adjustment of interest between successive periods is not, however, so accurate as by the second method, but in short-term agreements dealing with articles of personal use this consideration is not always of paramount importance.

Procedure by First Method.—A separate sales journal is kept for hire-purchase sales, and when agreements are concluded full details relating to them are entered in this book The sale is recorded at its *cost price*, other columns being provided for memor-

anda as to the full price charged and the number of instalments by which it is to be paid.

A Memorandum Ledger is kept for all hire-purchase sales, and an account is opened for each agreement under the name of the purchaser. In this ledger the customer is debited, at the outset, with the total of the instalments due from him, as shown by the memorandum columns in the Sales Journal above referred to ; a note giving the cost price of the goods must be made at the same time in the purchaser's account, as the information will be needed at balancing times for profit purposes.

The periodical cost price totals of the Hire-Purchase Sales Journal are credited in the trading account of the business, and are debited to an account entitled "Stock out on Hire-Purchase Account" in the nominal ledger. This is the substantive entry for the hire-purchase sales effected, the entry in the hire-purchaser's memorandum ledger being merely statistical.

All cash received from individual hire-purchasers is debited in the Cash Book of the business in the ordinary way. It is credited :—

(*a*) In detail in the personal accounts of the hire-purchasers in the (memorandum) Hire-Purchasers Ledger.

(*b*) In daily or other periodical totals in the "Stock out on Hire-Purchase" account in the nominal ledger. It is frequently useful to have an extra analysis column ruled in the Cash Book to contain the hire-purchase receipts, and to allow of their being posted in total in the nominal ledger. The use of this column follows the ordinary lines of columnar book-keeping. The crediting of the hire-purchase receipts in periodical totals in the "Stock out on Hire-Purchase" account forms again the substantive entry for the transaction, that in the memorandum ledger being informative only.

At the end of any stated period, the outstanding balances of the customers' accounts in the memorandum ledger are extracted, and the proportion of profit included is deducted from each balance. The remaining figure in every case consists of the unpaid portion of the original cost. The resulting amounts are totalled and, collectively, constitute a valuation of the instalments outstanding on a cost price basis The figure thus arrived at is credited in the Stock out on Hire-Purchase Account for the current period, and is brought down on the debit side of the same account as an asset, in the manner with which the student is familiar in connection with ordinary stock-in-trade.

The inclusion of the hire-purchase stock valuation on the credit side of the Stock on Hire Purchase Account will, ordinarily, result in that account showing a credit balance representing the profit realised on hire-purchase transactions for the period. Should the account show an adverse balance, it will, of course, represent a loss. The profit or loss thus shown is transferred to the trading

HIRE-PURCHASE DAY BOOK.

Date	Agreement No.	Details	Total Instalments £	s.	d.	Folio	Cost Price £	s.	d.
19.. Sept 1	612	I Bray, Deepvale House, W Motor Bicycle B11264, 12 instalments of £6 10s. commencing Sept 1, 19—	78	0	0	64	48	0	0
,, 15	613	W Brown, 132 Lavinia Vale, W Motor Bicycle B11812, 12 instalments of £7 commencing Sept 15, 19—	84	0	0	65	51	10	0
,, 25	614	H. Harris, Eastview House, W. Motor Bicycle B11243, 10 instalments of £7 commencing Sept 25, 19— ..	70	0	0	66	50	0	0
,, 30	615	R Bone, 112A Cheape, W.C. Motor Bicycle B11211, 8 instalments of £10 commencing Sept 30, 19— .	80	0	0	67	56	0	0
		Carried forward	£312	0	0		£205	10	0

NOTE.—In the above example the totals are shown as carried forward to the next page. At the end of the trading period the total of the cost price column will be debited to the Stock out on Hire-Purchase Account.

HIRE-PURCHASERS MEMORANDUM LEDGER.

Name of Hire-Purchaser : J. Bray.
Address : Deepvale House, W.
Agreement . No. 612.
Date : September 1, 19...
Article . Motor Bicycle B11264.
Cost Price : £48.
Instalments · 12, quarterly, £6 10s. each, September 1, 19.., and thereafter.
Total Instalments · £78.

DR. CR.

Date		D.B	£	s.	d.	Date		C.B	£	s.	d.
19 .. Sept. 1	To Total Instalments for Motor Bicycle . ..	172	78	0	0	19... Sept. 1	By Cash	16	6	10	0
						Dec 1	,, Cash	18	6	10	0
						,, 31	,, Balance		65	0	0
			£78	0	0				£78	0	0
19.. Jan. 1	To Balance		65	0	0	19... Mar 1	By Cash	20	6	10	0
						June 1	,, Cash	25	6	10	0
						Sept. 1	,, Cash	29	6	10	0
						Dec 1	,, Cash ..	34	6	10	0
						,, 31	,, Balance		39	0	0
			£65	0	0				£65	0	0
19 . Jan 1	To Balance		39	0	0	19... Mar 1	By Cash	40	6	10	0
						June 1	,, Cash	45	6	10	0
						Sept. 1	,, Cash . ..	50	6	10	0
						Dec 1	,, Cash . ..	56	6	10	0
						,, 31	,, Balance . .		13	0	0
			£39	0	0				£39	0	0
19... Jan. 1	To Balance ..		13	0	0	19... Mar. 1	By Cash	61	6	10	0
						June 1	,, Cash	67	6	10	0
			£13	0	0				£13	0	0

GENERAL LEDGER.

STOCK OUT ON HIRE-PURCHASE.

Dr.		£	s	d			£	s	d. Cr.
19. . Jan. 1	To Value of Stock out on Hire-Purchase Agreements at this date .	1,962	10	9	19. Dec. 31	By Receipts from Hire-Purchasers during the year . .	1,584	9	6
Dec. 31	,, Cost of Stock sent out under Hire-Purchase Agreements during the year (as per Hire-Purchase Sales Journal) . .	4,340	11	2	,, 31	,, Value of Stock out on Hire-Purchase at end of year (being the amount of the instalments not yet paid after deducting the portion of profit included thereon) . .	5,218	14	2
,, 31	,, Transfer to Profit and Loss Account, being the profit upon Hire-Purchase business for the year . . .	500	1	9					
	£	6,803	3	8		£	6,803	3	8

account of the business in the ordinary way. The above procedure is followed for each succeeding period, the treatment throughout proceeding on a stock basis, much as if the stock were transferred at cost price from a head office to a branch, or from one department to another, instead of being delivered to the customers for use.

The method is illustrated by specimen entries on p. 723

In some cases the personal accounts of the hire-purchasers are taken into the double entry. Where this method is adopted, the *selling* price is posted from the Sales Book in detail to the Hire-Purchasers Ledger, and in total to the credit of Hire-Purchase Sales Account. Since the personal accounts are then part of the double entry, the posting of the instalments received from the cash book is sufficient to complete the double entry on that side.

At balancing dates, the total of the outstanding instalments, as shown by the balances on the Hire-Purchasers Ledger, is carried down as a credit balance or Hire-Purchase Sales Account, the effect being to *contra* the debtors for balance sheet purposes, and to leave on Hire-Purchase Sales Account an amount equal to the instalments received. This latter amount is transferred to the credit of Trading Account. The unpaid instalments are valued as before, i.e. reduced to cost, and debited to Stock out on Hire-Purchase Account, and credited to Trading Account. The balance on Stock out on Hire Purchase Account is taken into the Balance Sheet as usual, and closed to the following year's Trading Account. Under this method the Stock out on Hire Purchase Account is similar to an ordinary Stock Account, whereas under the Memorandum system already outlined, this account is really the Hire Purchase Trading Account. Variations of the two methods are frequent in practice.

Procedure by Second Method.—By this method the cash price of the goods for an out and out sale, and the loading for interest and risk of loss, which together constitute the hire-purchase price, are separately treated. Each transaction is entered in a special Hire-Purchase Sales Book, the hire-purchaser's Ledger account is debited with the cash price, and the seller's trading account is credited as if it were an ordinary sale. The whole of the difference between the cost of the goods disposed of and their cash selling

price, i.e. the gross profit, is thus taken credit for in the seller's Trading Account for the period during which the sale was effected, and is not, as under the "stock" method, spread over the term of the hire-purchase agreement. By this method the later years of the agreement derive no benefit from the transaction, except the interest on the outstanding instalments. If the majority of agreements are duly fulfilled this method is *satisfactory*; and, even if the hire-purchaser fails to complete, the loss should not be great, because the hire-seller has in hand all the instalments paid prior to default, and on the average, these should cover the loss following a sale of the goods as "second-hand." But the method is not very suitable for small short-term agreements, where the instalments include substantial loading for risk

The cash price debited to the personal account of the hire-purchaser is treated as an ordinary loan at interest. The accrued interest, at the rate assumed, is charged up at periodical intervals, and the instalments received are treated as payments in reduction of the combined debit. Assuming that the calculations are made correctly, the balance of principal and interest remaining on the account at the end of the agreed term will exactly equal, and be extinguished by, the final instalment paid

Should the hire-purchaser fail to maintain his payments, the goods must be treated, for accounting purposes, as having been repurchased by the seller for the amount of principal and interest remaining unpaid on the personal account at the date of default.

This method proceeds upon the assumption that hire-purchase sales are ordinary commercial sales subject to payment by instalments at interest. The assumption is inaccurate, and, in so far as any losses are anticipated through default, reserves must be raised out of revenue before accurate gross profits can be ascertained.

The method is illustrated in the subjoined example (see p. 726).

A Third Method.—Where the cash price method is applied to short-term agreements concerned with small amounts, a variation of the foregoing methods is sometimes employed

The total of the agreed instalments is incorporated in the book-keeping at the outset, and is divided into (*a*) the cash sale price of the goods, (*b*) the addition for gross profit, and (*c*) the addition for compound interest.

When the sale is effected, the total of (*a*), (*b*), and (*c*) is debited to the personal account of the hirer, and is credited to an account in the nominal ledger called Hire-Purchase Sales Account, or by some analogous title.

At the end of the trading period (*a*) the aggregate total cash sale prices of the goods sold plus (*b*) the aggregate additions for gross profit are transferred from the Hire-Purchase Sales Account to the credit of the ordinary sales account, and ultimately find their way to the Trading Account of the business. The total additions for interest (*c*) are transferred from the Hire-Purchase Sales Account to the credit of a separate Hire-Purchase Interest Suspense Account for the period during which the sale was effected

The incidence of the interest so held in suspense is worked out over the years involved, and the percentage attributable to each

THE SHAFTON COLLIERY COMPANY, LIMITED.

Hire-Purchase of 30 Wagons at £40 apiece, payable by 12 Half-Yearly Instalments of £100.

(Note.—Cash selling price, £995 8s. Interest, 6 %, with half-yearly rests.)

Dr. Cr.

		£	s	d			£	s	d
Jan. 1	To Cash selling price of wagons	995	8	0	June 30	By Cash, first instalment	100	0	0
June 30	,, Half-year's interest at 6 %	29	17	3	,, 30	,, Balance down ..	925	5	3
		£1,025	5	3			£1,025	5	3
June 30	To Balance .. .	925	5	3	Dec. 31	By Cash, second instalment .. .	100	0	0
Dec 31	,, Half-year's interest	27	15	2	,, 31	,, Balance down ..	853	0	5
		£953	0	5			£953	0	5
Dec 31	To Balance	853	0	5	June 30	By Cash, third instalment	100	0	0
June 30	,, Half-year's interest	25	11	10	,, 30	,, Balance down ..	778	12	3
		£878	12	3			£878	12	3
June 30	To Balance .	778	12	3	Dec. 31	By Cash, fourth instalment	100	0	0
Dec 31	,, Half-year's interest	23	7	2	,, 31	,, Balance down ..	701	19	5
		£801	19	5			£801	19	5
Dec. 31	To Balance . .	701	19	5	June 30	By Cash, fifth instalment ..	100	0	0
June 30	,, Half-year's interest	21	1	2	,, 30	,, Balance down ..	623	0	7
		£723	0	7			£723	0	7
June 30	To Balance	623	0	7	Dec. 31	By Cash, sixth instalment . .	100	0	0
Dec. 31	,, Half-year's interest	18	13	10	,, 31	,, Balance down .	541	14	5
		£641	14	5			£641	14	5
Dec. 31	To Balance .. .	541	14	5	June 30	By Cash, seventh instalment	100	0	0
June 30	,, Half-year's interest	16	5	0	,, 30	,, Balance down ..	457	19	5
		£557	19	5			£557	19	5
June 30	To Balance ..	457	19	5	Dec. 31	By Cash, eighth instalment .. .	100	0	0
Dec. 31	,, Half-year's interest	13	14	10	,, 31	,, Balance down .	371	14	3
		£471	14	3			£471	14	3
Dec. 31	To Balance .. .	371	14	3	June 30	By Cash, ninth instalment ..	100	0	0
June 30	,, Half-year's interest	11	3	0	,, 30	,, Balance down .	282	17	3
		£382	17	3			£382	17	3
June 30	To Balance	282	17	3	Dec. 31	By Cash, tenth instalment	100	0	0
Dec. 31	,, Half-year's interest	8	9	9	,, 31	,, Balance down ..	191	7	0
		£291	7	0			£291	7	0
Dec. 31	To Balance	191	7	0	June 30	By Cash, eleventh-instalment	100	0	0
June 30	,, Half year's interest	5	14	10	,, 30	,, Balance down ..	97	1	10
		£197	1	10			£197	1	10
June 30	To Balance . .	97	1	10	Dec 31	By Cash, twelfth instalment . .	100	0	0
Dec 31	,, Half-year's interest	2	18	2					
		100	0	0			£100	0	0

successive year is ascertained in round figures Every year the due percentage of suspense interest arrived at in this way is transferred from the Hire-Purchase Interest Suspense Account to the credit of the Interest or Profit and Loss Account of the firm, and at the end of the agreed term the Interest Suspense Account for the year during which the sale was effected closes automatically. Separate interest suspense accounts are kept for the interest added to each year's sales, and several of these accounts are necessarily open at any given time, in different stages of exhaustion, e.g if the term for which contracts are made is four years, there will be five interest accounts open simultaneously.

Example.—In 1931, goods costing £78, the cash sale price of which would be £105 15s. 0d., were sold on hire purchase for £10 per quarter payable for 3 years (£120 in all), the first payment being due at the end of the first quarter.

The interest in this case works out at 8 % per annum, and the £120 ultimately payable can be analysed as follows:—

			£ s. d.
Cost price			78 0 0
Addition for gross profit			27 15 0
Cash sale price			£105 15 0
Addition for interest—			
First year	£7 10 0	(52 6 %)	
Second year	4 16 5	(33·8 %)	
Third year	1 18 7	(13 5 %)	
			14 5 0
			£120 0 0

£105 15s. 0d. is credited in due course to the firm's Trading Account in the ordinary way through the Hire-Purchase Sales Journal.

£14 5s. 0d. is credited to 1931 Hire-Purchase Interest Suspense Account, and the hire-purchaser's Personal Ledger account is debited with £120

If all sales for 1931 took place on the first day of the year, it would be correct to transfer the whole first year's interest to the credit of the 1931 Profit and Loss Account on December 31st in that year, as is done above, and, similarly, to transfer the whole of the second and third year's interest respectively to the credit of 1932 and 1933 Profit and Loss accounts in due course. This assumption is, however, not reasonable, for sales are usually spread fairly equally throughout the year.

In an ordinary case, therefore, only one-half of the first half-year's interest (£3 15s. 0d. or 26·3 %) should be transferred to the credit of the 1931 Profit and Loss Account; the second half of the first year's interest and half of the second year's interest should be transferred to the credit of 1932 Profit and Loss Account; and the second half of the second year's interest and the first half of the third year's interest pass in due course to the credit of 1933 Profit and Loss Account, and the second half of the third year's interest is credited to the account for 1934.

In the particular example given above the interest and percentage calculations can therefore be revised as follows.—

	£	s.	d.	
Amount to be credited to the first year . ..	3	15	0	(26 3 %)
Amount to be credited to the second year ..	6	3	3	(43 2 %)
Amount to be credited to the third year	3	7	5	(23 7 %)
Amount to be credited to the fourth year ..	0	19	4	(6 8 %)
Total	£14	5	0	(100·0 %)

The method illustrated for an individual sale can be applied to all similar sales effected during 1931, i.e of the balance standing to the credit of the 1931 Hire-Purchase Interest Suspense Account, 26·3 % should be transferred in one sum to the credit of the Profit and Loss Account for 1931, and 43·2 %, 23·7 %, and 6·8 % respectively should be transferred to the Profit and Loss Accounts for 1932, 1933, and 1934, when those accounts are prepared.

Under this system, four interest suspense accounts will always be open simultaneously. At the end of 1931, the Profit and Loss Account for that year will be credited with its due proportion of interest by transfers from the Interest Suspense Accounts opened in 1931, 1930, 1929, and 1928

The Hire-Purchaser's Records.—The entries for recording hire-purchases are necessarily the converse of those employed by the hire-seller. In addition, the hire-purchaser must take into account depreciation on the goods in process of being acquired, if they are used in the purchaser's business. Hotels, offices, and printing works are frequently equipped on the hire-purchase system. Tailors' and bootmakers' sewing and other machines are also acquired in this way. In all such cases there is need for accurate accountancy. Perhaps the most important development of the system is in connection with the purchase of railway wagons by collieries. Here the amounts involved are usually heavy, and it is essential correctly to apportion and record the instalments paid.

The simplest method of dealing with transactions of this kind is to proceed upon the converse of the " cash price " method already explained. For book-keeping purposes, the transaction is regarded as a purchase at a stated cash price payable in equal instalments, which include interest at an agreed rate over the period. The rate of interest assumed in hire-purchase agreements can usually be ascertained or approximated—6 % is not unusual. Given the rate of interest, the cash price of the goods can be obtained by reference to an annuity table, since it is the present worth of the series of instalments, with compound interest at the stated rate.

When the agreement is signed, the hire-seller is credited with the assumed cash price of the wagons and Wagons Account is debited with the same amount. Thereafter, the two accounts are worked independently. At the end of each year, or other stated period, the hire-seller is credited with interest at the assumed rate on the balance of his account, and the Profit and Loss Account is debited with a similar sum. The periodical instalments paid to the hire-seller are debited to his account, and, if all calculations have been accurately made, the hire-seller's account will automatically close when the final instalment has been paid.

The Wagons Account is regarded throughout as an asset account. Depreciation should, therefore, be written off periodically at an

agreed rate, just as if the wagons had been purchased in the ordinary way. The fact that they have been acquired on extended terms of credit does not add anything to their useful life. But coal wagons have a considerable span of useful life, and most of their component parts are replaceable. A rate of from 6 % to 10 % on the diminishing balance will usually meet the requirements of the case. All repairs and replacements should be charged to revenue in addition to providing for depreciation.

These methods are illustrated in the following example.

Illustration.—On January 1, 1933, the East West Colliery acquired on hire-purchase terms from the Bath Wagon Company fifty wagons on a five years' agreement at £10 per wagon per annum, the instalments to commence on December 31, 1934. The rate of interest involved may be taken to be 6 % per annum. Wagons are to be depreciated at 6 % per annum on the diminishing balance. Show the Wagons Account and the account of the Bath Wagon Company in the colliery's books.

BATH WAGON COMPANY.

(HIRE-PURCHASE OF FIFTY WAGONS AT £10 PER ANNUM FOR FIVE YEARS.)

DR.			£	s.	d.				£	s.	d. CR.
1933. Dec. 31	To Cash, first year's payment ..		500	0	0	1933. Jan. 1	By Cash price of 50 wagons ..		2,106	3	8
„ 31	„ Balance carried down		1,732	11	1	Dec. 31	„ One year's interest at 6 % ..		126	7	5
		£	2,232	11	1			£	2,232	11	1
1934. Dec. 31	To Cash, second year's payment .		500	0	0	1934. Jan. 1	By Balance ..		1,732	11	1
„ 31	„ Balance carried down		1,336	10	2	Dec. 31	„ One year's interest at 6 % .. .		103	19	1
		£	1,836	10	2			£	1,836	10	2
1935. Dec. 31	To Cash, third year's payment		500	0	0	1935. Jan. 1	By Balance		1,336	10	2
„ 31	„ Balance carried down		916	14	0	Dec. 31	„ One year's interest at 6 % ..		80	3	10
		£	1,416	14	0			£	1,416	14	0
1936. Dec. 31	To Cash, fourth year's payment . .		500	0	0	1936. Jan. 1	By Balance .		916	14	0
„ 31	„ Balance carried down		471	14	0	Dec. 31	„ One year's interest at 6 % .		55	0	0
			£971	14	0				£971	14	0
1937. Dec. 31	To Cash, fifth year's payment . .		500	0	0	1937. Jan. 1	By Balance		471	14	0
						Dec. 31	„ One year's interest at 6 % .		28	6	0
			£500	0	0				£500	0	0

(Illustration continued on page 730.)

When incorporating the Wagons Account and the Personal Account of the hire-seller in the Balance Sheet of the hire-purchaser, it is not correct to show the former account as an asset for its full amount and the latter as a liability. The cash price credited to hire-seller, and reduced from time to time, is a fictitious and generally not an enforceable liability. Similarly, until the hire-purchase agreement has been fulfilled, the gross balance of the Wagons (or Wagon Purchase) Account represents a fictitious asset. For Balance Sheet purposes it is necessary, therefore, to deduct the credit balance of

the hire-seller's account from the debit balance of the Wagons Account, and to show the difference between these two balances on the assets side of the Balance Sheet, under the heading of "Wagons in course of Hire-Purchase" or other descriptive title. Thus in the Balance Sheet prepared on December 31, 1933, in the example given above, the balances on the Wagons Account and the Bath Wagon Company's Account would be offset against each other, and the difference between the two balances, viz. £247 5s. 2d., would appear on the assets side as representing the interest to

WAGONS ACCOUNT.

WAGON PURCHASE ACCOUNT.

DR.									CR.
		£	s.	d.			£	s.	d.
1933 Jan 1	To Cash price of 50 wagons taken on hire-purchase for five years at £10 per wagon per annum	2,106	3	8	1933. Dec. 31	By One year's depreciation at 6 % per annum .	126	7	5
						,, Balance carried down . ..	1,979	16	3
		£ 2,106	3	8			£ 2,106	3	8
1934 Jan 1	To Balance brought down	1,979	16	3	1934 Dec 31	By One year's depreciation at 6 % per annum .	118	15	10
						,, Balance carried down	1,861	0	5
		£ 1,979	16	3			£ 1,979	16	3
1935. Jan 1	To Balance brought down	1,861	0	5	1935 Dec. 31	By One year's depreciation at 6 % per annum	111	13	3
						,, Balance carried down	1,749	7	2
		£ 1,861	0	5			£ 1,861	0	5
1936 Jan 1	To Balance brought down	1,749	7	2	1936. Dec 31	By One year's depreciation at 6 % per annum ..	104	19	3
						,, Balance carried down	1,644	7	11
		£ 1,749	7	2			£ 1,749	7	2
1937. Jan 1	To Balance brought down	1,644	7	11	1937 Dec 31	By One year's depreciation at 6 % per annum .	98	13	3
						,, Balance carried down	1,545	14	8
		£ 1,644	7	11			£ 1,644	7	11
1938 Jan 1	To Balance brought down ..	1,545	14	8					

date of the East West Colliery Co. in the Wagons held under Hire-Purchase Agreement

The cash price of the wagons, on a 6 % interest basis, is found by reference to annuity tables to be £42·1236 per wagon. The difference between that amount and the £50 per wagon eventually paid represents the loading for interest at 6 % per annum.

The total cash price of the wagons, viz. £2,106 3s 8d., is debited to the Wagons Account and credited to the Personal Account of the Bath Wagon Company. The same entry would, of course,

be made if the wagons were actually purchased on a deferred payment basis, instead of being acquired under a hire-purchase agreement. From a book-keeping point of view, the two forms of agreement are assumed to be identical in effect, provided the hire-purchase instalments are maintained.

The Wagon Company is credited every year with one year's interest at 6 % upon the balance standing to its credit, and is debited with the £500 paid annually on December 31st under the hire-purchase agreement. By this process the balance on the Wagon Company's account is extinguished at the end of the fifth year.

The Wagons Account is treated as an ordinary asset account, irrespective of the special terms under which the asset is being acquired. Depreciation at 6 % per annum is written off the wagons in the ordinary way.

Alternative Method of Record.—Upon examination of the foregoing accounts it will be seen that each annual payment can be analysed according to the following table:—

	Interest Paid to Vendor.			Depreciation			Proportion of Annual Payments attributable to Wagon Purchase			Book Value of Wagons at end of Year.		
	£	s.	d	£	s	d.	£	s.	d	£	s.	d.
First year .	126	7	5	126	7	5	247	5	2	247	5	2
Second year	103	19	1	118	15	10	277	5	1	524	10	3
Third year ..	80	3	10	111	13	3	308	2	11	832	13	2
Fourth year	55	0	0	104	19	3	340	0	9	1,172	13	11
Fifth year ..	28	6	0	98	13	3	373	0	9	1,545	14	8

This analysis affords an alternative method of dealing with the transaction in the books. The proportions for Interest and Depreciation of each annual payment can be debited to accounts opened under these headings, and transferred, in due course, to the Profit and Loss Account, the proportion attributable to Wagon purchase being debited to an asset account opened under that title. The latter account will show an ascending balance year by year. When the purchase has been completed, the Wagon Purchase Account will show the same balance (£1,545 14s. 8d.) arrived at under the method first explained.

It is optional which of the two methods is adopted, and, so far as the Balance Sheet is concerned, the same figure results from either method, viz the amount represents the net capital portion of the total wagon purchase payments at any particular date.

In some cases a rough-and-ready rule is adopted in regard to wagon hire-purchase payments. Thus one-half of each annual contribution may be capitalised, the remainder being charged to revenue to cover interest and depreciation Or the difference between the total hire-purchase price and the estimated value at the end of the hire-purchase period may be written off to revenue by equal instalments over that period. Such methods usually err on the side of caution—as would be the case if £250 only were

capitalised each year in the example given—but they are neither scientific nor accurate.

SALES FOR DEFERRED PAYMENT BY INSTALMENTS, INCLUDING INTEREST.

Transactions of this kind are not common in respect of goods mainly because the terms involved are not so satisfactory for either party as those of a hire-purchase agreement. The seller parts with the legal ownership at the commencement of the transaction, and cannot reclaim the goods should the buyer default in his instalments; the only guarantee for the fulfilment of the agreement is the personal credit of the buyer. The buyer assumes an obligation to pay the whole of the instalments, and is forced to keep the goods. He cannot determine his contract at an intermediate date by returning the goods to the seller, except with the latter's consent.

In practice, these transactions are generally recorded in the books of both seller and buyer at the cash price of the goods, i.e. at the present worth of the series of instalments contracted for between the parties. The entries necessary are upon the same lines as those for hire-purchase transactions. The seller treats the buyer as a debtor for the "cash value," charging his personal account with periodical interest at the rate assumed, and credits the same account with all instalments received in reduction of the debt. The personal account of the buyer is closed by the payment of the final instalment. The buyer treats the seller as a creditor for identical amounts, and the personal account of the seller is the converse of the personal account of the buyer in the seller's ledger.

The buyer must depreciate the cash price of the asset on his books irrespective of the fact that he is paying for it over an extended period.

In the books of the seller the whole of the gross profit made forms part of the trading results for the period in which the scale was affected. Inasmuch as there is no legal right to reclaim the goods, the seller must make such provision for bad debts as his experience of this class of business proves to be advisable.

The other methods of record, already explained in connection with hire-purchase agreements, can be extended, in case of need, to the record of pure instalment purchases and sales, without material alteration.

REPAYMENT OF PURCHASE ADVANCES BY INSTALMENTS, INCLUDING INTEREST.

Sometimes a loan is made upon a specific piece of property, in order to assist a would-be purchaser, and repayment is stipulated for in the form of a series of equal yearly or half-yearly instalments. These repayment instalments are adjusted to include the interest on the advance. On this principle a building society makes mortgage advances to its members. Each loan is made for a safe proportion, usually two-thirds to three-quarters, of the value of the property which the member wishes to acquire. The balance of the purchase money has to be provided by the would-be purchaser, and forms a margin for the security of the society.

From the standpoint of the building society, the aspect of the transaction is really that of a loan, which is debited periodically with interest at the agreed rate, and is reduced by the payment of the instalments as they fall due. The debit balance of the

Illustration.—A B purchased a cottage for £400, paying £127 13s. 6d from his own resources, and borrowing £272 6s 6d from a building society, repayable over a term of three years at the rate of £100 per annum. The cottage was paid for on December 31, 1934. The building society instalments fall due on December 31, 1935, 1936, and 1937. The rate of interest is 5 % per annum Show A B's accounts, depreciating the cottage at 5 % per annum on the diminishing balance.

COTTAGE ACCOUNT.

Dr									Cr.
		£	s	d			£	s.	d.
1934 Dec. 31	To Cash	400	0	0	1935 Dec. 31	By One year's depreciation written off	20	0	0
					,, 31	,, Balance down ..	380	0	0
		£400	0	0			£400	0	0
1935 Dec. 31	To Balance	380	0	0	1936 Dec 31	By One year's depreciation written off	19	0	0
					,, 31	,, Balance down ..	361	0	0
		£380	0	0			£380	0	0
1936. Dec 31	To Balance	361	0	0	1937 Dec. 31	By One year's depreciation written off	18	1	0
					,, 31	,, Balance down ..	342	19	0
		£361	0	0			£361	0	0
1937 Dec 31	To Balance ..	342	19	0					

BUILDING SOCIETY.

(LOAN ACCOUNT.)

Dr									Cr.
		£	s.	d			£	s	d.
1935 Dec. 31	To Cash, repayment first instalment ..	100	0	0	1934 Dec. 31	By Cash, loan	272	6	6
,, 31	,, Balance down ..	185	18	10	1935 Dec. 31	,, One year's interest at 5 %	13	12	4
		£285	18	10			£285	18	10
1936 Dec 31	To Cash, repayment second instalment	100	0	0	1935 Dec 31	By Balance	185	18	10
,, 31	,, Balance down ..	95	4	9	1936 Dec. 31	,, One year's interest at 5 %	9	5	11
		£195	4	9			£195	4	9
1937 Dec 31	To Cash, repayment third instalment ..	100	0	0	1936. Dec 31	By Balance	95	4	9
					1937 Dec. 31	,, One year's interest at 5 % . ..	4	15	3
		£100	0	0			£100	0	0

borrower's account will, of course, disappear upon the payment of the last instalment. Should the borrower fail to maintain his instalments, the society can enforce its mortgage security, and realise the property by auction, or by private sale, and repay itself any balance that may be outstanding. Any surplus remaining may

belong to the society or to the borrower according to the terms of the mortgage deed

From the standpoint of the borrower, the transaction is the converse of the foregoing. He purchases the property from its owner at a stated cash price, part of which he provides out of his own resources, and the balance of which he obtains on mortgage repayable by a stated series of instalments. He therefore treats the purchase and the loan as separate transactions in his books, debiting the full cost of the property to a property account (to be suitably depreciated) and crediting the amount of the loan to the building society's account, to be repaid by instalments.

Income Tax.—The hire-purchase of railway wagons and their treatment for the purpose of Income Tax has been made the subject of an official note by the Inland Revenue Authorities. The method of treatment which is officially approved is the cash value method, the hire-purchaser obtaining from the seller a certificate of the price at which he would sell the wagons outright for cash, and the difference between this cash value and the total instalments payable being "treated as hire and allowed in equal annual amounts spread over the term of the agreement."

If no certificate from the seller of the cash price is available, the value is allowed to be "computed from the aggregate amount payable under the agreement on the basis of a 5 % interest table."

Wear and Tear is also allowed on the cash value at a rate to be settled by agreement or by appeal, and the cost of reconstruction, and all renewals of parts, are allowed as repairs, except in so far as the expenditure may constitute an extension. Where wagons with dead ends are improved by the addition of spring buffers, £5 per wagon is to be added to the capital value of each wagon (and depreciated) and the balance of the cost of conversion is allowed as a loss.

Where wagons in the course of hire-purchase are "re-financed"—i.e surrendered in order to obtain a cash payment and re-hired on a new hire-purchase agreement for a fresh period—the old allowances for hire ceases and a new allowance for hire begins, but the old allowance for Wear and Tear continues without reference to the new agreement.

Depreciation.—This matter is dealt with at pp 728–9.

ROYALTY ACCOUNTS.

Definition.—The term "royalty," as employed in commerce, expresses a payment, somewhat of the nature of rent, made for the right to use certain classes of productive property. The most common instances are patent rights, mineral rights, the rights to publish or reproduce literary compositions, to perform stage plays or music, and to reproduce works of art. In every case payment is made to the owner of the rights in question. The owner's property in the rights usually deteriorates in value by effluxion of time.

From the standpoint of the recipient, royalties are income, but they are not entirely income. The return of a proportion of capital must be regarded as embodied in each payment, because a time usually arrives when the rights themselves cease to be of value. This is especially the case with mineral royalties. In

cases where royalties received are made the subject of accurate book-keeping, a sinking fund should be provided, out of current receipts, for the ultimate redemption of any capital invested in them.

Royalties are usually business expenses from the standpoint of the payer, and, as such, their record calls for no special treatment. Mineral royalties, however, are an exception to this rule, and as agreements entered into between the owner and the lessor of mining rights usually embody special features, the book-keeping records must be adapted accordingly.

Basis of Calculation.—Most forms of royalty are calculated on the basis of the payment of an agreed sum of money in respect of each use of the rights conferred, e.g upon each article manufactured under patent rights, or each occasion upon which a stage play is performed, or a book or piece of music is sold. Mineral royalties are usually based upon an agreed sum of money for each unit of mineral extracted, e.g 6d. per ton on every ton of coal won from a specified area or seam.

Mineral Royalties.—In the case of mineral rights, certain additional stipulations are frequently inserted in the agreement between the parties, in order to secure equitable treatment amidst the uncertainties and vicissitudes to which mining operations are subject.

When granting a lease of a coal-bearing area upon a royalty basis the landowner almost invariably stipulates for the payment of a fixed minimum sum in every year. If he did not so protect his interests it is conceivable that the lessee might fail to exploit the mine to the best possible advantage, and, as a consequence, the income of the landlord would suffer. The amount so agreed is called Minimum, Dead, or Fixed Rent.

Minimum, Dead, or Fixed Rent.—This must be paid whether minerals be won or not, but if the agreed royalty on the tonnage basis exceeds the minimum rent, the royalty is payable in lieu of such rent. When new collieries are in course of development, the minimum rent clause, if unqualified, is occasionally found to operate adversely to the tenant during the earlier years of the lease. During these years, the tenant is engaged in sinking shafts and driving roads to open the coal seams, and the output of coal is sometimes meagre, notwithstanding which the annual minimum rent is payable to the landlord. In order to make the bargain more equitable, it is usually agreed between the parties that, during a limited time, the tenant may claim for *Short-workings.*

Short-Workings.—This term is used to express the difference between the amount by which the actual royalties payable in respect of the output on the agreed basis for a period given fall short of the minimum rent fixed by the lease. In other words, if the minimum rent payable to the landlord is larger than the royalties the excess is termed short-workings. A special clause is usually inserted in colliery leases which entitles the tenant to recoup himself for short-workings if and when the royalties payable exceed the minimum rent.

Illustration.—If the output of a colliery for the first year is 10,000 tons and the royalty payable is 6d. per ton, with a minimum rent of £500 per annum, the short-workings for the year would amount to £250—i.e. £500 (minimum rent) minus £250 (royalty at 6d. per ton on 10,000 tons) = £250. If the output of the second year amounted to 30,000 tons, the normal royalties payable would be £750; but if the lessee is entitled to "recoup" the short-workings of the previous year, amounting to £250, he would only pay the landlord the minimum rent of £500.

As a general rule, the privilege of recouping short-workings exists for a limited time only, and is usually confined to the first three or five years of the lease. Any short-workings not recouped within the specified time are irrecoverable.

These considerations, of course, affect the book-keeping of the colliery, and need special treatment which may perhaps be best explained by a typical illustration.

Illustration.—The lease of a colliery is granted upon the basis of a royalty of 6d. per ton on the coal raised, subject to a minimum rent of £1,000 per annum; the tenant has power to recoup short-workings during the first five years of the lease, but not afterwards.

The output is as follows:—

	Tons
(1923) first year	20,000
(1924) second year	30,000
(1925) third year	35,000
(1926) fourth year	45,000
(1927) fifth year	50,000
(1928) sixth year	100,000

It will be seen that the minimum rent of £1,000 is the equivalent of the royalty of 6d. per ton on 40,000 tons.

In the first year, the tonnage royalty would be £500, but the minimum rent of £1,000 is paid under the lease, the difference between the two (£500) constitutes short-workings which the tenant trusts to be able to recoup in later years when the colliery is fully developed.

In the second year, the tonnage royalty would be £750, but the minimum rent of £1,000 has to be paid; the difference of £250 between the tonnage royalty of that year and the minimum rent forms further short-workings, and is added by the tenant to the £500 he already has to recoup, if possible, in later years.

In the third year, the tonnage royalty would be £875, but the £1,000 is paid and £125 is added by the tenant to his short-workings: the latter now amount to £875.

In the fourth year, the tenant begins to be able to recoup his short-workings payments of the earlier years. The tonnage royalty would be £1,125 (6d. per ton on 45,000 tons), but the tenant claims to offset against this £125 of his short-workings, and only to pay the minimum rent of £1,000. The tenant's recoupable short-workings are then reduced to £750

In the fifth year, the tonnage royalty would be £1,250, but the tenant claims to recoup a further £250 of his short-workings and to pay again the minimum rent of £1,000, and so his short-workings are thereby reduced to £500 Since the period for recouping short-workings is limited to the first five years of the lease, the tenant will never be able to recover this £500; and, if it has been

held up on his books in earlier years, it must be written off as a loss to his revenue account.

In the sixth year, the full royalty of 6d. per ton on the output is payable (£2,500). Had this improved output come in the fifth year instead of the sixth, the tenant would have been able to recoup the rest of his now irrecoverable short-workings; the fact that he is not able to do so is, of course, one of the hazards inseparable from any form of mining.

The principle followed in recording these facts in the tenant's books is as follows:—

Book-keeping Rules.—The tenant's Profit and Loss Account must be debited each year, in any case, with the tonnage royalty on the actual output for the year. The royalties paid in earlier years representing "short-workings" may be treated as an asset so long as there is a reasonable probability that they will be recouped in later years. Should this probability be unrealised, they must be written off to the Profit and Loss Account of the undertaking. When in the later recoupment years the royalties paid are less than the tonnage royalty for the year, by reason of the recoupment of previous years' short-workings, it is still the tonnage royalty upon the actual year's output that becomes chargeable to Profit and Loss Account. Where short-workings accumulate as an asset and eventually become irrecoverable, they must be written off as a loss. The question as to whether it will be possible to recoup the short-workings existing at any given date before the limit of time for doing so expires, is, in every case, one to be decided by the responsible engineer in charge of the property, or by an independent expert. It is advisable, however, to err on the side of caution in upholding short-workings, since coal-mining is never free from the element of uncertainty. In this example, it is assumed throughout that reliable expert opinion contemplated the eventual recoupment, within the five years, of all the earlier years' short-workings; otherwise it would have been inadmissible to hold them up as an asset in the manner shown.

First Year.—The Profit and Loss Account is debited with the actual tonnage royalty upon output (£500); Short-workings Account (an asset account) is debited with the £500 short-workings; the items, forming together the minimum rent of £1,000, are credited to the landlord's personal account, and paid to him in cash.

Second Year.—The Profit and Loss Account is debited with the actual tonnage royalty upon output (£750); Short-workings Account is debited with a further £250, raising it to £750, the landlord's personal account is credited with the two items, forming the minimum rent of £1,000, which is paid to him in cash.

Third Year.—The Profit and Loss Account is debited with the actual tonnage royalty upon output (£875); Short-workings Account is debited with another £125; and the two items, forming together the minimum rent of £1,000, are credited to the landlord's personal account, and discharged in cash.

Fourth Year (First year of recoupment).—The Profit and Loss Account is debited with the actual tonnage royalty upon

ROYALTY ACCOUNT.

Dr.		£	s.	d.		Cr.	£	s.	d.
1st year. Dec 31	To Landlord's Account, for royalty on coal won ..	500	0	0	1st year. Dec 31	By Transfer to Profit and Loss Account	500	0	0
2nd year Dec. 31	To Landlord's Account, for royalty on coal won ..	750	0	0	2nd year Dec. 31	By Transfer to Profit and Loss Account	750	0	0
3rd year. Dec 31	To Landlord's Account, for royalty on coal won ..	875	0	0	3rd year. Dec. 31	By Transfer to Profit and Loss Account	875	0	0
4th year. Dec 31	To Landlord's Account, for royalty on coal won	1,125	0	0	4th year. Dec. 31	By Transfer to Profit and Loss Account	1,125	0	0
5th year Dec 31	To Landlord's Account, for royalty on coal won	1,250	0	0	5th year. Dec. 31	By Transfer to Profit and Loss Account	1,250	0	0
6th year. Dec. 31	To Landlord's Account, for royalty on coal won .	2,500	0	0	6th year. Dec. 31	By Transfer to Profit and Loss Account	2,500	0	0

LANDLORD'S PERSONAL ACCOUNT.

Dr.			£	s.	d.		Cr.		£	s.	d.
1st year. Dec 31.	To Cash		1,000	0	0	1st year. Dec 31	By Minimum rent, as under: On coal won £500; Short-workings 500		1,000	0	0
2nd year. Dec 31	To Cash		1,000	0	0	2nd year. Dec 31	By Minimum rent as under: On coal won £750; Short-workings 250		1,000	0	0
3rd year. Dec. 31	To Cash		1,000	0	0	3rd year Dec 31	By Minimum rent as under: On coal won £875; Short-workings 125		1,000	0	0
4th year. Dec. 31	To Transfer from Short-workings Account, for short-workings recouped		125	0	0	4th year. Dec. 31	By Royalty on coal won		1,125	0	0
" 31	" Cash		1,000	0	0						
		£	1,125	0	0			£	1,125	0	0
5th year. Dec 31	To Transfer from Short-workings Account, for short-workings recouped		250	0	0	5th year. Dec 31	By Royalty on coal won		1,250	0	0
31	" Cash		1,000	0	0						
		£	1,250	0	0			£	1,250	0	0
6th year. Dec. 31	To Cash		2,500	0	0	6th year. Dec 31	By Royalty on coal won .		2,500	0	0

Note.—Income Tax has been ignored.

SHORT-WORKINGS ACCOUNT.

Dr.						Cr.				
			£	s	d.			£	s	d.
1st year Dec. 31	To Landlord's Account, short workings 1923	J	500	0	0	2nd year Dec. 31	By Balance	750	0	0
2nd year. Dec. 31	„ Landlord's Account, short-workings 1924 ..	J	250	0	0					
			£750	0	0			£750	0	0
2nd year Dec 31	To Balance		750	0	0	3rd year Dec 31	By Balance	875	0	0
3rd yr Dec 31	„ Landlord's Account, short-workings 1925		125	0	0					
			£875	0	0			£875	0	0
3rd year. Dec. 31	To Balance .. .		875	0	0	4th year Dec 31	By Transfer to Landlord's Account, short-workings recouped in 1926 .	125	0	0
						31	„ Balance .. .	750	0	0
			£875	0	0			£875	0	0
4th year Dec. 31	To Balance		750	0	0	5th year. Dec 31	By Transfer to Landlord's Account, for short-workings recouped in 1927	250	0	0
						31	„ Transfer to Profit and Loss Account, balance of short-workings written off as irrecoverable	500	0	0
			£750	0	0			£750	0	0

PROFIT AND LOSS ACCOUNT

Dr						Cr				
			£	s	d			£	s	d
1st year Dec 31	To Royalties		500	0	0					
2nd year Dec 31	To Royalties .. .		750	0	0					
3rd year, Dec. 31	To Royalties .		875	0	0					
4th year Dec 31	To Royalties .. .		1,125	0	0					
5th year Dec. 31	To Royalties		1,250	0	0					
, 31	„ Short-workings written off as irrecoverable .		500	0	0					
6th year Dec 31	To Royalties		2,500	0	0					

output (£1,125), and the landlord's personal account is credited with this amount. In order to reduce the landlord's credit balance to the £1,000 minimum rent payable, a transfer of £125 is made from the Short-workings Account to the debit of the landlord's account, and the £1,000 then standing to his credit is discharged

in cash. The short-workings (asset account) balance is thereby reduced to £750.

Fifth Year (Second and final year of recoupment).—The Profit and Loss Account is debited with the actual tonnage royalty upon output, £1,250, and the landlord's personal account is credited with this amount. In order to reduce the landlord's credit balance to the minimum rent of £1,000 payable, a further transfer of £250 is made from Short-workings Account to his debit, and the resultant balance of £1,000 in his favour is discharged in cash.

By this transfer, the balance of the Short-workings Account has been reduced to £500. But now no further sum can be recovered, and the £500 must consequently be written off as a loss. The management have been over sanguine as to the eventual recoupment of *all* the short-workings within the period allowed, and it would have been better had a proportional part of the item been written off in earlier years.

Sixth Year.—The Profit and Loss Account is debited with the actual tonnage royalty on output (£2,500) and the landlord's personal account is credited with a like sum. As there is no longer any power to recoup short-workings, this amount is paid him in cash. The accounts are as stated at pp. 738–9.

EXAMINATION QUESTIONS.

1. Explain what you understand by a hire-purchase agreement. Show how the books of a furniture dealer, selling goods on the hire-purchase system, should be kept, and insert a few typical entries in the various books which you name.

Show on what principles the Trading Account and Balance Sheet of a business of this kind should be constructed. (*Incorporated Accountants.*)

2. A gas company deals in stoves on the hire-purchase system. On January 1st A purchased a stove from the company for 55s., to be paid by twelve equal quarterly instalments of 4s. 7d. each.

The stove cost the gas company 37s. 6d.

The four quarterly instalments payable in the first year were duly received by the company.

How should these transactions appear in the company's Ledger, so that the year is credited with its proper proportion of the profit earned? (The question of depreciation can be disregarded). (*Chartered Accountants.*)

3. On March 1st the B. S. Coal Company obtained wagons on the hire-purchase system. The price of the wagons was £1,150. Payment was to be made, as to £150 down and as to the balance at £200 per year with 5 % interest.

The B. S. Coal Company write off 10 % depreciation each year.

Construct the necessary Ledger accounts in the books of the company, showing in detail the entries. (*Incorporated Accountants.*)

4. If a company hires wagons or other property on the purchase system, by which they become the absolute property of the company after a fixed number of payments, would you apply the annual payments to increase the value of the item "Wagons," or how otherwise? (*Chartered Accountants.*)

5. A colliery company acquires 100 railway wagons on the hire-purchase system. Payment has to be made by annual instalments to include principal and interest. Pending the payment of the final instalment, how will you treat the Wagon Account in the books, and show this asset of the company from year to year? (*Chartered Accountants.*)

6. In the accounts of a firm purchasing wagons or other plant on the hire system, under agreement that the payments should extend over a period, how would you deal with the annual payments to the vendors in the Balance Sheet and Profit and Loss Accounts of the purchasing company? *(Chartered Accountants.)*

7. Ought depreciation to be charged to revenue in respect of (hire-purchase) wagons not yet the property of a company, and, if so, upon what sum ought it to be calculated? *(Chartered Accountants.)*

8. A colliery company hires 100 wagons on the deferred-purchase system over a term of seven years, the rent being payable by quarterly instalments of £200, with an addition for repairs of £2 per wagon per annum. Assuming the wagon company's charge for interest on the cash price of the wagons to be 5 % per annum, make the Journal entries for the first year necessary to apportion the quarterly payments between Capital and Revenue. *(Chartered Accountants.)*

9. In the case of collieries, explain the difference between rents called according to locality "certain," "minimum," or "dead rents," and "tentail," "royalty," or "acreage rents"; and in what way rents of the first-named order overpaid, but subject to merging in rents of the second order, should be treated in the Balance Sheet. Explain also, when wagons are held on the "Hire and Purchase" system, how these would be treated in the colliery books. *(Chartered Accountants.)*

10. Explain briefly, by means of *pro-forma* examples, how "royalties" and "short-workings," arising out of a mining lease, are dealt with in the books of the lessee of a colliery. *(Royal Society Arts.)*

11. Define "dead rent" and "short-working" in the case of a colliery. In what circumstances is it proper to uphold the latter in the Balance Sheet as an asset? How would you estimate its value? *(Chartered Accountants.)*

12. The lease of a colliery contains a clause which gives power to recoup short-workings over a term of years.

What is meant by this concession?

What are your duties, as auditor, with regard to the treatment of short-workings in the annual accounts of the colliery? *(Chartered Accountants.)*

13. A clause in the lease of the Blackfields Colliery Company gives power to recoup short-workings over a term of four years.

What is meant by this concession?

Draft specimen entries showing how the accounts of the colliery would be affected, assuming that the clause became operative at the close of the first year's working. *(Royal Society Arts.)*

14. In the case of a colliery, what evidence would you call for with respect to charges for dead rents, tentail rents, or acreage rents, in order to be satisfied that all such charges were brought in and duly entered in the books? *(Chartered Accountants.)*

15. The following item appeared amongst the assets of a colliery company of which you are the auditor: Short-workings, £2,868.

Explain its meaning, and state whether, and on what conditions, you would allow it to be treated as an asset. *(Chartered Accountants.)*

16. A lead mine is leased by A to B for a period of years at a dead rent of £300 per annum, merging into a royalty of 10s. per ton on all ore gotten. In the first five years this tonnage is as follows: First year, 958 tons; second year, 234 tons; third year, 615 tons; fourth year, 430 tons; fifth year, 28 tons. B pays on account in the first year £300, and in the second year £50 (and has made no further payments to A during the five years). Prepare the necessary personal and nominal accounts in B's Ledger, showing these transactions, and bringing down balances, if any. *(Incorporated Accountants.)*

17. The Coal Mine Company, Ltd., took a lease of a colliery from G. Risch for 99 years from September 29th, at a ground rent of £50 a year, payable half-yearly, and a royalty of 6d. per ton, with a minimum royalty of £80 a year, payable half-yearly. During the first year the Company raised 2,500

tons, and during the second year ended September 29th, 4,000 tons. The several amounts to G. Risch were paid twenty-one days after becoming due. Write up both Personal and Nominal Accounts, and balance them at the end of each year. (*Chartered Accountants.*)

18. The Coaley Colliery Company, Ltd , pay a royalty to a ground landlord of 9d. per ton of coal raised, with a minimum of £1,200 per annum, with power to recoup short-workings. In 1929 they raised 20,000 tons; in 1930, 30,000 tons; in 1931, 44,000 tons. How would you deal with these items year by year in the Profit and Loss Accounts and Balance Sheets of the company? (*Lancashire and Cheshire Institutes.*)

19. What are the duties of an auditor with relation to the accounts of coal and mine owners on the one hand, and lessees of coal and other minerals on the other hand, and what steps would you take to ensure that the interests of both are protected? (*Chartered Accountants.*)

20. Explain the following terms in connection with royalty accounts: Dead Rent, Short-workings, Redeemable Dead Rent, Surface Rent, Footage, Acreage, Tentail, Minimum Rent. (*Central Association Accountants.*)

21. In auditing the accounts of lessees of minerals, what evidence would you require as to the several responsibilities of the lessees; and would you call for any, and what, proof that the charges against profit and loss for minerals worked were correct beyond the return of the lessees' engineer or mineral surveyor? (*Chartered Accountants.*)

22. A coal company has a lease of an area of coal, and also owns an area of freehold coal. What steps should you take to ascertain that Revenue was bearing its proper annual charge in respect of the coal got? (*Chartered Accountants.*)

23. A colliery company obtained a lease of a coal mine at a dead rent of £500 per annum, merging into a royalty of 6d. per ton, with power to recoup short-workings. The output for the first four years was as follows: 1st year, 10,000 tons; 2nd year, 15,000 tons; 3rd year, 30,000 tons; 4th year, 50,000 tons. Show the entries in the books of the company bringing down the balances at the close of each year. (*Central Association Accountants.*)

24. The Hard Coal Colliery Company, Ltd., agreed to purchase from the International Wagon Company, Ltd., 100 railway wagons, at the price of £50 per wagon, paying for the same by half-yearly instalments of £300, such instalments to include interest on the unpaid purchase money at the rate of 7 % per annum.

The date of the purchase was January 1st, and the first half-yearly instalment was due July 1st.

Write up the Hard Coal Colliery Company's Account in the wagon company's books for three years, and also write up the Wagon Account in the colliery company's books for the same period. (*Chartered Accountants.*)

25. A colliery company acquires a lease of a mineral area for a term of sixty years at a minimum certain rent of £500 per annum, merging into a royalty of 6d. per ton on coal worked in periods, each of three years. Assuming the royalties on coal worked during the first year amounted to £100, in the second year £400, and in the third to £700 (leaving £300 of certain rent forfeited), make Journal and Cash Book entries, and post to Ledger accounts on the basis of the first two years' rent having been paid at the end of each year, and the rent of the last year being unpaid, showing the amount chargeable to Profit and Loss in each year. (*Chartered Accountants*)

26. The Maes-y-Gwyn Colliery Company, Ltd., took, on January 1st, upon lease from the landlord (Evan Ap Thomas, Esq , J.P.) a coal-bearing area upon the following terms, viz. a minimum rent of £300, merging into a royalty of 6d. per ton, with power to recoup "short-workings" over the first three years of the lease.

The annual output of the colliery was as follows: first year, 5,000 tons; second year, 11,000 tons; third year, 14,000 tons; fourth year, 20,000 tons.

Show the Landlord's Royalties and Short-workings Accounts as they would appear in the company's books.

27. A colliery is worked under a thirty years' lease at a royalty of 8d. a ton, with a minimum yearly rent of £1,000, with power to recoup short-workings In the first year 25,000 tons are worked; in the second, 26,500; in the third, 24,500; in the fourth, 31,000; and in the fifth, 30,500 tons How would you deal with the respective years' royalties, both in Profit and Loss and in the Balance Sheet? *(Chartered Accountants.)*

28. The Pontyffraith Colliery Company, Ltd., took from the Earl of Landore a lease of a coal-bearing area for a period of twenty years, from January 1st, upon the terms of a royalty of 6d. per ton upon the output, with a minimum rent of £200 per annum, and with power to recoup short-workings over the first four years of the lease.

The annual outputs for the five years following the granting of the lease were as follows: first year, 5,000 tons; second year, 8,000 tons; third year, 10,000 tons; fourth year, 10,000 tons; fifth year, 12,000 tons.

Show the Royalties, Short-workings, and Landlord's Ledger Accounts as they would appear in the books of the Colliery Company.

29. On January 1st, James Fincham became the lessee of a chalk pit on the terms of paying a minimum rental of £1,000 per annum, merging in a royalty of 4d. per ton. The output in the first year was 30,000 tons, in the second year, 40,000 tons, and in the third year, 70,000 tons. Show how you would treat the royalty and rental in James Fincham's books, the lease providing that minimum rent not merged in royalty could be deducted out of future royalty in excess of the minimum on the footing that James Fincham would in the course of five years have increased the output to at least 300,000 tons. *(Chartered Accountants)*

30. A landlord leased his collieries to a company for thirty years at a dead rent of £600 a year, merging into a royalty of 6d. a ton, with power of recoupment over the period of the lease.

The company's output for the first seven years was as follows: First year, 5,000 tons; second year, 15,000 tons; third year, 20,000 tons; fourth year, 24,000 tons, fifth year, 25,000 tons; sixth year, 26,000 tons; seventh year, 24,000 tons.

How will these workings be shown in the annual Profit and Loss Accounts and the Balance Sheets of the company? *(Chartered Accountants)*

31. The Northern Colliery Company, Ltd., took a lease of a coal mine for a period of twenty years from January 1st. Under the lease a royalty of 6d. per ton upon the output was payable, with a minimum rent of £400 per annum, with power to recoup short-workings over the first five years of the lease.

Show the Royalty, Short-workings and Landlord's Accounts in the books of the colliery company, assuming that the annual outputs for the first five years of the lease were: first year, 10,000 tons; second year, 15,000 tons; third year, 17,000 tons; fourth year, 18,000 tons; fifth year, 20,000 tons. *(London Chamber Commerce.)*

32. The R Colliery Company, Ltd., leased a property from A at a royalty of 1s. 6d. per ton, with a minimum rent of £2,000 per annum. Each year's excess of minimum rent over royalties is recoverable out of the royalties of the next five years.

In the event of a strike and the minimum rental not being reached, the lease provided that the actual royalties earned for the year discharged all rental obligations for that year.

The results of the working were as follows: First year of the Company, ended December 31st, actual royalties, *nil;* second year ended December 31st, actual royalties, £650; third year ended December 31st, actual royalties, £1,850, fourth year ended December 31st, actual royalties, £2,250; fifth year ended December 31st, actual royalties, £2,800; sixth year ended December 31st, actual royalties, £3,500; seventh year ended December 31st (strike), actual royalties, £1,900; eighth year ended December 31st, actual royalties, £3,000.

Write up the Minimum Rent Account and the Royalties Account, showing the amount charged to Profit and Loss Account each year. *(Chartered Accountants.)*

33. Lund & Co., Ltd., leased from Lord A for fifty years from September 29th certain lands for mining purposes at a surface rent of £40 a year and a royalty of 6d. per ton on the minerals raised. The minimum annual payment for royalty was fixed at £200, any deficiency in tonnage of one year to be set off against the tonnage of a subsequent year. During the first three years the quantity of minerals raised was: First year, 4,000 tons; second year, 9,000 tons; third year, 14,000 tons. There was paid to Lord A in the first year £240 and in the second year £240. Make out both personal and nominal accounts from the above figures, and show the balance due for the third year. (*Chartered Accountants.*)

34. A colliery company took a lease of a coal-bearing area for a period of twenty years from January 1st, upon the terms of a royalty of 6d. per ton upon the output, with a minimum rent of £400 per annum, with power to recoup short-workings over the first four years of the lease.

You are required to show the Royalties, Short-workings and Landlord's Accounts in the books of the colliery company, assuming the output for the first six years of the lease to be as follows: first year, 6,000 tons; second year, 8,000 tons; third year, 16,000 tons; fourth year, 20,000 tons; fifth year, 18,000 tons; sixth year, 15,000 tons. (*Chartered Accountants*)

35. A and B, colliery proprietors, take a twenty-one years' lease at a dead rent of £600 per annum, merging into a royalty of 1s. a ton. The dead rents are recoverable out of royalties paid within five years 800 tons were raised the first year, 4,600 the second year, and 75,000 the third year. 100 colliery wagons were purchased on the hire-purchase system, by which the wagons, at the end of ten years, became their absolute property in consideration of 15s. a month for each wagon. It was assumed by the firm that each wagon would be worth £40 at the end of the ten years. Show the Ledger accounts for Dead Rents, Royalties, Purchase of Wagons for the first three years. (*Chartered Accountants.*)

CHAPTER XIII

Store and Cost Accounts

Store-keeping and Stock Accounts.

Preliminary to dealing with the question of cost accounts, it is necessary to devote attention to store-keeping records. The word "stores" in this connection means the raw materials or other articles used in manufacturing goods or carrying on a business, but not goods held in stock for sale purposes. There can be no satisfactory costing system unless there are accurate and systematised records of all stores received and issued. In every business it is essential to maintain a proper check upon the numerous items passing in and out of stock which are covered by the somewhat vague title "general stores." Indeed, in a manufacturing business, such records are vital, as the counting house is dependent upon the factory for much of the information required for pricing and invoicing goods sold or work done. The value of the work of the costing department is also largely dependent upon the accuracy of the store-keeper's records. Slackness or inefficiency in keeping stores will have far-reaching effects.

An Efficient Store-keeping System.—The raw materials employed in different businesses are so diverse in character that it is impossible to frame hard-and-fast store-keeping rules, or to submit rulings capable of universal adoption. All that can be attempted is to outline the main principles applicable to all store-keeping records. The first essential is that the store-keeper should be trustworthy and capable, and the second that the recording system should work correlatively with the costing and financial records of the business, and provide an efficient check upon all goods entering and leaving store Most of the time of the store-keeper is usually occupied in looking after the goods in his charge, and for this reason the system should be as simple, and the books as few in number, as possible. In all cases the actual stores ledgers should be written up by a member of the counting-house staff, and not by the store-keeper. These ledgers should be designed to show the quantities of the various materials which should be in store at any time, and periodical stocktakings should be made to test the accuracy of the stock in hand

The materials in stock are recorded on separate cards attached to each bin, sack, shelf or locker, and the store-keeper will note

particulars of all goods received into, or withdrawn from, stock on these cards. Simple forms of cards are illustrated below.

BIN OR LOCKER CARD.

No. of Bin.................. Where kept ....

Nature of Goods .... Limit: Maximum ....

Minimum ....

Stock Received.			Given out on Requisitions.			Balance on Hand.
Date	From whom.	Quantity or Weight.	Date.	Required for.	Quantity or Weight.	Quantity. or Weight.

BIN OR LOCKER CARD.

.... DEPARTMENT.

Bin No. .... Description . ...

Stock and Added Since.						Taken Out Since.					
Size.	No.	T.	C.	Q.	L.	Size	No.	T	C.	Q.	L.

NOTE—This card is suitable to attach to bins or lockers prior to stocktaking It is particularly helpful for stocktaking purposes in cases where a count can take place a few days beforehand. On the actual day of stocktaking individual checks or tests are made here and there, and the cards are collected and dealt with in the office.

These cards are totalled periodically, and agreed with the balances shown in the Stores Ledger. Discrepancies disclosed at these balancing periods must be inquired into at once. This is often a tedious task, but to delay investigation is fatal. When the stock of any particular material is running low, the store-keeper must send a formal requisition to the ordering and buying department. In no circumstances should he be empowered to order goods direct. The store-keeper should record particulars of all his requisitions in a **Stores Purchases Book,** a suitable ruling of which is shown at p. 747. Full particulars of the actual quantities of goods received should be recorded against the requisitions. It is not wise to hand the invoices for the goods to the store-keeper, lest he should be tempted to avoid the trouble of an

STORES PURCHASES BOOK.

Requisitions				Goods Received.													
Date	No. of Requisition	Particulars.	Quantity	Date of Delivery Order or Credit Slip	Order No.	From whom Received.	Particulars	Quantity	Weight				Price	Amount			Folio.
									T.	C.	Q	L		£	s.	d.	

REQUISITION FORM.

Stores Requisition.

No. ....
Goods required for .... (job or contract number).

Date ...., 19...

Counterfoil	Particulars.	Quantity.	Weight				Price per Unit.	Amount			Reference Folio.
			T.	C.	Q	L		£	s.	d.	
Requisition No . ... Date .... No. of Order . .. . (Details of Materials demanded) Initials	Demanded by .... Supplied by										

CREDIT SLIP.

No....... Goods returned from .... Date .... 19 ..

Particulars.	Quantity	Weight				Price per Unit	Amount.			Reference Folio.
		T.	C	Q	L.		£	s	d	
Handed in by .... Received by										

STORES ISSUED BOOK.

Date	No of Requisition	To whom Issued.	Particulars.	Quantity	Weight.				Price.	Amount			S.L Folio
					T	C.	Q.	L		£	s	d	

SUMMARY OF STORES ISSUED.

Description of Materials Issued.	April.						May						June.					
	Folio	No	Weight.	Amount.			Folio	No.	Weight	Amount			Folio.	No.	Weight	Amount		
				£	s	d.				£	s.	d				£	s	d.

NOTE.—Each page usually provides for six months' records.

independent count and assume that the invoice quantities are correct. The invoices should be checked in the counting-house against the "goods received" records in the Stores Purchases Book, and deficiencies should be referred to the suppliers of the goods. In some instances the store-keeper will receive goods which he has not requisitioned, the buying department having ordered special materials for particular jobs or contracts direct. These goods will be recorded by the store-keeper in the Stores Purchases Book, and their arrival notified to the office. In some cases the store-keeper may receive partially or completely manufactured goods from the works, and these may be conveniently recorded in a separate "Stores Received" book, ruled in a similar manner to the Stores Purchases Book.

Issue of Goods from Store.—No goods must be issued from store except against a properly completed requisition form. Carbon duplicate books of requisition forms are sometimes supplied to foremen, and afford a useful record of stores requisitioned. Similar books are issued for credit slips. These requisition forms require careful scrutiny, as the accuracy of the eventual charging up of the job or contract will depend upon the care with which the particulars are recorded. The requisitions must be signed by the foreman requiring the goods, and must state the quantity required and the order number of the job or contract for which it is to be used. Stores remaining "over" from any job or contract should be entered by the foreman on a credit slip and returned to the store-keeper, who must treat them as an entirely fresh receipt of stores. Stores or materials issued for use in the works (e.g. oil, grease, etc.) should be noted as issued to the department concerned, and, if needed for machinery repairs, the shop number of the machine should be entered. From this information the proper manufacturing charge will be eventually formulated. All goods issued should be recorded in the **Stores Issued Book,** a ruling of which appears at p. 748. In some cases it may be convenient to duplicate this book to some extent under various headings to avoid subsequent analysis work. Where the work is heavy, the store-keeper's books may conveniently be duplicated for alternate days or weeks to enable the stores clerk to keep pace with his work. Materials purchased for special contracts or jobs do not remain long with the store-keeper, and may, if desirable, be recorded in a separate book. On p. 748 a useful form of *Summary of Stores Issued* is given from which postings to the Stores Ledger are effected. In some cases it may be advantageous to record the issues for repairs, or for factory or shop use, in a special *Abstract of Stores Book,* a ruling of which is given at p. 750.

The Stores Ledger.—The duty of posting this book should be undertaken by a member of the counting-house staff ("costs clerk" or "stores clerk") He will analyse the information contained in the store-keeper's books, requisitions, credit slips, invoices, etc., and post the Stores Ledger therefrom. A simple ruling of a Stores Ledger is given at p. 751. It will be seen on

Month ending ....

ABSTRACT OF STORES.
(Foundry.)

Shellac.										Brushes.										Sprigs.										Total.		
Requisition No	Machine No	No	Weight				Amount.			Requisition No	Machine No.	No.	Weight.				Amount.			Requisition No	Machine No.	No	Weight.				Amount					
			T	C.	Q.	L	£	s	d				T.	C.	Q	L	£	s	d				T	C	Q.	L.	£	s	d	£	s.	d.

A page (or pages) similar to the above is headed with the name of each shop, the divisions being allotted to the particular materials required in the department.

Wire.	Chaplets.	Etc , Etc	

Sometimes a portion of this book is set aside for recording the issue of stores direct to orders; each division is then headed with the number of the order thus:—

Order No 6984				
Iron Wire		—	—	14
Cut Nails		—	—	8
Red Lead . . .		1	—	—
Etc Etc.				

STORES LEDGER.

(Left-hand Page.)

Nature of Goods . ...
No. of Rack ....

RECEIVED INTO STOCK

Date.	Order No	Folio.	By whom Supplied	No of Invoice or Credit Slip	Quantity.	Weight.				Price per Unit.	Amount			
						T	C.	Q.	L.		£	s.	d	

STORES LEDGER.

(Right-hand Page.)

Maximum Stock ....
Minimum Stock ....

ISSUED OUT OF STOCK

Date.	Requisition No	Folio.	To whom Issued.	Quantity.	Weight.				Price per Unit.	Amount.			Balance in hand (Quantity or Weight).
					T.	C.	Q.	L		£	s.	d	

reference to this ruling that the Ledger accounts are designed to show the number or weight of any item of stores which should be in stock. The balances shown in the Stores Ledger should agree with the balances shown on the cards attached to the bins or lockers as described above. One of the chief objects of the Stores Ledger is to provide a *financial* check upon the stores purchased and issued The basis upon which this Ledger is opened is that of the stocktaking at the close of the last financial period. A separate ledger opening is provided for each stock item of importance, whilst one or more general accounts are utilised to collect the less important items. It is generally advantageous to record at the head of each account the *maximum* and *minimum* of the stock of each item allowed and required respectively. When the minimum has been reached, notice should at once be given to the ordering department. At the periodical stocktakings for checking purposes, the records of the store-keeper are necessarily dealt with as quantities or weights. The stores clerk, however, has to deal with values also when costing jobs or contracts. Theoretically, these records should balance with those of the financial books, but, in practice, they rarely do. The margin of discrepancy should not, however, be large, if care is exercised by the stores clerk when compiling his figures. In addition to affording a check upon the store-keeper, and indicating the stock of any particular article in hand, the Stores Ledger also shows the position of the article in the warehouse, and greatly simplifies the task of the ordering department and of stocktaking. The employment of the card-index system in place of the older forms of Stores Ledgers is growing in popularity.

Cost Accounts.

It is unnecessary in view of modern business conditions to emphasise the need for accurate cost accounting. Whereas, prior to the war, cost accounting was regarded as a necessary nuisance, it is now recognised to be of the first importance; and practically every manufacturing firm in the country to-day has adopted accounting methods enabling accurate cost accounts to be kept. The great changes in manufacturing expenses resulting from the war have rendered pre-war costings useless, and made it more difficult, and at the same time more necessary, to keep costing calculations abreast of the constantly changing conditions.

The object of cost accounts is to enable a manufacturer to ascertain the actual cost, direct and indirect, of each article, ton, or other unit he manufactures, or of each job, process or contract he estimates for or completes. In most cases it is impossible to arrive at absolutely exact results, but close approximation to accuracy should be possible; and though cost accounts are quite distinct from the financial accounts, yet reconciliation between the two independent sets of results should be aimed at. No posting from the one set of books to the other should take place, but both sets of records should be so designed that periodical comparisons may be made. In the limited space available in a

general text-book, it is impossible to attempt more than a brief explanation of general principles, relieved where possible by practical illustrations. Having acquired the basic principles of costing, the student should be able to apply them to the exigencies of any business with the technical requirements of which he is familiar The principles underlying all systems of costing are identical, but the application of those principles varies with the class of undertaking

Advantages of Cost Accounting.—A proper system of cost accounting enables a manufacturer :—

(*a*) To ascertain the actual cost of production of any article, process, or job, or the output of a department , to analyse and classify the constituents of such cost, and to regulate selling prices accordingly

(*b*) To base estimates and tenders upon actual past experience of cost ; to compare the results of trading periods, and the cost of different methods of manufacture, or the employment of different kinds of material and classes of labour ; to ascertain what effect an increase in wages or a reduction of working hours has upon the cost of production.

(*c*) To locate weak points in his factory system and to eliminate processes which are inefficient or extravagant To find out the departments or articles of manufacture that do not pay, and generally to locate profit and loss. In the absence of accurate costing records, the manufacturer may be making considerable profits in one department and, without knowing it, be losing a large part of them in some other department.

(*d*) To obviate theft, waste of time or material, incapable management and inefficient workmanship.

(*e*) To assist in fixing reliable values when stocktaking.

Systems of Cost Accounting.—Costing is so closely interwoven with actual factory administration that it is impossible to stereotype any particular system even for all businesses in the same trade. The student who desires to specialise in the subject has a wide choice of text-books at his disposal. A convenient series is published by Messrs. Gee & Co. in the "Accountants' Library." In this series of volumes the subject has been divided as follows :—

Multiple Costing.—" A system applicable to undertakings where a number of products are involved, bearing little or no relation to one another in cost or selling price, and in which the manufacture is organised to a high degree of specialisation in parts." Examples are cycles, boots, small tools, furniture, hosiery, and similar products, the parts of which are standardised to a high degree. The manufacture of such things necessitates constant and regular processes and involves repetition. It will be obvious that it would not be practical to take, say, a single pocket-knife and cost the different parts separately. The costing system is designed to deal with the separate processes in each and

every stage so as to arrive at the total cost for a given number of articles.

Terminal Costing.—This method is applicable to undertakings where definite contracts are entered into and completed, e.g. the building of a bridge or a ship, and is suitable for Engineers, Contractors, Builders, etc. By carefully tabulating every expense in material and labour, and charging each contract account with its proper proportion of shop or works charges and general oncost expenses, a figure of cost will be arrived at capable of comparison with the actual price received for the job or contract. If these industrial accounts are accurately kept, the aggregate result shown should agree with that of the financial Profit and Loss Account. But that is a consummation seldom achieved!

Single Costing.—This is applicable to undertakings where there is a natural unit of cost, e.g. per barrel or per ton, and is suitably employed for Breweries, Collieries, Mines, Quarries, etc.

Process Costing.—This system is applied to undertakings concerned with the conversion of material, and where valuable by-products result from the manufacture of the principal article, as in the case of Chemical industries, Tanneries, etc.

Operating or Working Costing.—This method is applied to Railway, Tramway, Electric Light, Gas and Water undertakings, etc., where the ordinary books of account contain, in themselves, the data necessary for costing the unit concerned.

Difficulties of Devising a System.—The above division of the subject is useful, though perhaps somewhat arbitrary considering the difficulty of classifying modern enterprise with such precision. The chief obstacle confronting the practical accountant is not the difficulty of designing a theoretically excellent costing system, but that of inducing the manufacturer so to organise his works as to permit the essential data to be collected. For this reason the costing system in use is, in many cases, a compromise between the accountant's ideal and the existing organisation of the manufacturer.

The usefulness, and incidentally the expense, of any costing system will depend largely upon the adequacy of the organisation of the factory, and it must be remembered that what a large factory can afford to do is generally beyond the power of the small factory. No knowledge of the technical details of a business is necessary for accurate financial records, but when devising a costing system accounting skill needs to be combined with a knowledge of the manufacturing processes employed and of the routine by which the costing data is collected. Much of this detail will be supplied by the foremen and workmen, and despite the many elaborate mechanical applicances in the shape of time clocks, time cards, indicators, stores records, and so forth, the fact remains that reliance must in the end be placed on the not too dependable human element The aim of the financial accounts is to ascertain trading results. The object of cost accounts is to analyse the expenses incurred in the manufacture of an article into its component parts. If the costing system is to be anything

but a waste of time, it must be accurate and kept constantly up to date, and the manufacturer can accomplish this only at the cost of much trouble and expense.

The author has met costing experts of a temperament so enthusiastic as to hold the view that costing systems should be devised to carry the figures through to the financial books and final accounts. It is suggested, however, that even if this were practicable, the expense would probably prove prohibitive, and practice proves that, even with the most elaborate costing systems, the usual financial books are kept. Experience also suggests that some costing experts are apt, in their zeal, to overlook the fact that elaboration may overstep the line where usefulness ends and waste of time and money begins; nevertheless, as indicated later, the costing records should be frequently compared with the financial records, and agreement achieved as nearly as may be.

Elements of Costs.—Broadly speaking, the costing system of any business is in reality an analysis of the Manufacturing or Trading and Profit and Loss Accounts. The debits appearing in these accounts resolve themselves into :—

(*a*) Items which are directly related to and chargeable against the articles manufactured, such as materials and labour. Direct expenses of this nature are called *Prime Cost.*

(*b*) Expenses which cannot be so directly dealt with, such as Rent, Rates, Office Salaries, Bad Debts, Audit Fee, etc. Indirect expenses of this nature are termed *Oncost, Overhead, Fixed, Establishment* or *Burden Expenses.* The combined totals of (*a*) and (*b*) represent *Gross Cost* or *Cost of Production.*

It will be seen, therefore, that the typical costing system will deal with :—

(*a*) *Labour* directly chargeable to the article, job or process.

(*b*) *Materials* directly chargeable to the article, job or process.

(*c*) *Overhead* expenses apportionable as *oncost* upon some consistent and equitable basis.

The cost of labour and materials will vary with the turnover, but oncost expenses will remain more or less fixed.

LABOUR.

It is probably the exception in these days to find the daily or hourly basis of paying wages in operation In cases where wages are paid on this basis, the costing records under this head will be a comparatively simple matter. Where the time system is in vogue the men will be booked into the works either by a time-keeper, or by means of one or other of the many mechanical time-recording instruments now available, and which are operated by each workman inserting his numbered key in a clock or depressing a lever, and thus recording the time of his attendance upon a sheet, which, in some cases, is afterwards utilised as the actual Pay Sheet, when priced, totalled, and extended at the end of the week.

Where mechanical recorders are not used, the time-keeper will write up a Time Book from his records, or from checks handed in by the men. From the workmen's point of view all this is very simple. For the purpose of the costing, however, it becomes necessary to analyse the total wages paid in detail in order that each article or job may be charged with its due proportion. In some works the old method of sending a clerk round the works to collect information is still in vogue, but is being steadily superseded by mechanical recording instruments and cost cards. Where practicable, labour is now almost invariably remunerated upon a piece-work basis, i.e. a definite price is agreed for each job or process. Although fat and lean jobs pass through a factory, yet, provided the foreman distributes the work impartially, the wages paid will average themselves equitably in the long run.

Bonus or Premium System.—A method of payment now growing in favour is the *Bonus* or *Premium System*. Under this system a time limit is fixed for each job. The worker is given a certain time in which to finish a given piece of work, for which he is paid at the usual hourly rate. In addition to this, he is paid either (1) a definite percentage of any saving he may effect, or (2) a premium equal to the percentage of time saved; i e. (1) he is paid, say, either a third or a quarter of his wages for the time saved, or (2) if he saves, say, 10 % of the time allowed, he is paid an extra 10 % of the wages earned.

The following illustration of the Premium Bonus System shows that the method is only advantageous to the worker up to a saving of half the time allowed for the job. Above that the advantage to the worker steadily decreases whilst the employer's benefit continues to increase.

Illustration.—A worker is given ten hours to do a piece of work, his rate being, say, 2s. per hour. If the full ten hours be taken he earns 20s.

Time taken, Hours.	Wages earned.	Plus Bonus	Total earned by Workman	Rate per hour earned	Amount saved by Employer
	s. d.	s. d.	s. d.	s. d.	s. d.
9	18 0	1/10th, 1 10	19 10	2 2½	0 2
8	16 0	2/10ths, 3 2	19 2	2 4¾	0 10
7	14 0	3/10ths, 4 2	18 2	2 7	1 10
6	12 0	4/10ths, 4 10	16 10	2 9¾	3 2
5	10 0	5/10ths, 5 0	15 0	3 0	5 0
4	8 0	6/10ths, 4 10	12 10	3 2½	7 2
3	6 0	7/10ths, 4 2	10 2	3 5	9 10
2	4 0	8/10ths, 3 2	7 2	3 7	12 10
1	2 0	9/10ths, 1 10	3 10	3 10	16 2

If the job is finished in five hours the worker's bonus is 5s. and the saving to the employer is 5s. Taking the extreme case of the job being completed in one hour, the worker's bonus is only 1s. 10d., whilst the employer's saving would be 16s. 2d. It

may be argued that the time fixed for the job should make it impossible for it to be done in less than, say, half the time allowed, but, however that may be, the workman has no inducement to still further reduce the time. Incidentally, it may be stated that 50 % bonuses are very general in machine shops to-day, the inference being, therefore, that with some additional advantage accruing to the worker further time could be saved.

Where the extra payment to the worker takes the form of a percentage of the time *saved*, the advantage to the worker is small in the early stages and increases all the way through to an altogether disproportionate extent. This is exemplified in the following table :—

Time taken, Hours.	Wages earned	Plus Bonus on Time Saved. Saving.	Plus Bonus on Time Saved. Percentage	Plus Bonus on Time Saved. Amount.	Total earned by Workman	Rate per hour earned.	Amount Saved by Employer.
1	2	3	4	5	6	7	8
	s d.	s d.		s. d.	s. d.	s. d	s. d.
9	18 0	2 0	1/10th	0 2½	18 2½	2 0¼	1 9½
8	16 0	4 0	2/10ths	0 10	16 10	2 1½	3 2
7	14 0	6 0	3/10ths	1 10	15 10	2 3	4 2
6	12 0	8 0	4/10ths	3 2	15 2	2 6½	4 10
5	10 0	10 0	5/10ths	5 0	15 0	3 0	5 0
4	8 0	12 0	6/10ths	7 2	15 2	3 9½	4 10
3	6 0	14 0	7/10ths	9 10	15 10	5 3½	4 2
2	4 0	16 0	8/10ths	12 10	16 10	8 5	3 2
1	2 0	18 0	9/10ths	16 2	18 2	18 2	1 10

In the early stages the advantage to the worker is too small and for this reason the author understands that this method does not meet with the approval of Trade Unionists, the relative savings being too much to the employer's advantage up to half the time saved.

In some cases a minimum wage is guaranteed, the remuneration being a combination of day and piece-work rates. In all cases where piece-work wages are paid the tendency to earn more money by doing hasty and bad work can only be checked by a proper system of viewing the work done.

Chargeable Wages.—Under whatever system the wages may be paid, their record and analysis demand strict care. Wherever possible, all wages should be charged up direct to the job or contract to which they relate as indicated by the number allotted to the job or contract.

If accurate records are kept, the larger portion of the weekly wages will be charged to definite jobs. Such wages may be called *Chargeable Wages.*

Unchargeable Wages.—In all factories there will be wages directly relative to no particular job, such as the wages of foremen, labourers, engine and boiler men, time-keepers, store-keepers, crane drivers, and the like. In a foundry, for instance, the bulk of the wages will be earned by the moulders and core-makers, and these amounts can be charged directly to the jobs upon which

they are expended. The moulders and core-makers, however, require the assistance of furnace men and labourers, the wages paid to whom need careful apportionment. This can be done in several ways.

In some cases these unchargeable wages are added in the Profit and Loss Account to other indirect works charges, and the whole total of Works Oncost Expenses are apportioned on some equitable basis. In other cases the wages are dealt with separately for apportionment purposes. One method is to divide unchargeable wages over the output of the factory on the tonnage basis, but in a foundry this plan will not always be equitable, since castings vary much in value. Heavy bed-plates, for instance, involving perhaps very little skilled moulding work, would be chargeable with too high a proportion of the unskilled labour, while motor cylinders of intricate design, and consequent heavy moulding cost, are of light weight and would be seriously undercharged. Thus a base-plate weighing 1 ton might be moulded for a piece-work price of, say, 30s., whilst a motor cylinder weighing 25 lb. might perhaps cost 10s. for moulding and core-making. In distributing or apportioning the unchargeable wages of furnace men, labourers, etc., the base-plate would, on a wages basis, bear only three times the amount with which the cylinder was charged, but on a weight basis the proportion would be 80 to 1. An alternative plan, therefore, is to apportion on the basis of the skilled or directly chargeable wages cost. Neither system is correct in practice, and the prime factor, the selling price, must be taken into consideration when endeavouring to arrive at an equitable method of distributing the indirect wages.

This method will necessarily vary not only in different works, but in different departments or shops of the same works. In a foundry the percentage of indirect wages to actual productive or chargeable wages may be as high as 200 %, whilst in a fitting or turning shop 50 %, or even 25 %, might be found ample to absorb the indirect wages. It will be seen, moreover, that whichever plan is followed the proportion or percentage will vary from day to day. Hence the impossibility of dealing with actual figures in writing up costs, and it is customary, therefore, to charge up the indirect wages on the basis of the ascertained ratio for a preceding period.

In the case of a machine shop, a different set of circumstances will arise. The actual chargeable wages can be readily analysed, but the unchargeable wages will need apportionment on some fresh plan, since neither the weight nor the skilled labour basis will necessarily be just, inasmuch as the employment of costly machinery is a factor that must also be brought into account. A boy may be engaged upon repetition work, having under his charge two or three automatic lathes the cost of which may be £1,000 each, whereas his neighbour may be a highly skilled mechanic operating a machine costing less than £100. Circumstances such as these bring into prominence the question of a machine rate per hour, and it is not an unusual practice when dealing with

unchargeable wages in a machine shop to carry such payments in bulk to a "Shop Charge Account," to which other items of expense also find their way, the final balance of which is allocated to the various machines upon some equitable basis.

Analysis of Wages.—Coming back to the necessity for careful analysis of the wages paid, it has already been pointed out that we have to deal with (*a*) chargeable wages and (*b*) unchargeable wages The information necessary for the analysis will be obtained from the time sheets of the men. These may be either weekly or daily. In many cases daily sheets are more satisfactory, since they are more likely to be accurately filled in—certainly they are cleaner than those covering six days! Wages paid under heading (*a*) will be charged direct to the job or contract, whilst the payments under heading (*b*) will form part of the Oncost expenses, or they will be allocated to the jobs upon some equitable basis. Specimens of time sheets are given below.

DAILY TIME SHEET.

TIME SHEET, *Tuesday, April* the *3rd*, 19...

Workman's name: *Hugh Dickson.*
Workman's number: *26.* Rate per hour: *1s 6d.*
Workman's occupation .. *Moulder.*

Particulars of Work done	Customer's Name	Job No	Hours		Amount.		
			Time.	Overtime.	£	s.	d.
Casting	*W. Richardson*	*374*	*7*	—		*10*	*6*

Foreman's signature · *R. Overhead.*

WEEKLY TIME SHEET.

TIME SHEET FOR WEEK ENDING . ..., 19...

Workman's name ....
Workman's number .... Rate per hour ....
Workman's occupation ....

Days.	Particulars of Work done.	Customer's Name.	Job No.	Hours.		Total Time
				Time.	Overtime	
FRIDAY						
SATURDAY						
MONDAY ..						
TUESDAY .						
WEDNESDAY						
THURSDAY .						

Totals.

Amount due, .. hours at.. £
Deductions .. .. ..

Amount payable .. .. £

Foreman's signature ....

ABSTRACT OF WAGES ON CAPITAL EXPENDITURE, REPAIRS, ETC., WEEK ENDING ...., 19...

Order No. or Details	Pattern-making			Core-making.			Moulding.			Machine Shop.			Fitting Shop.			Smith-work			Sundries.			Cost Ledger Folio.	Total		
	£	s.	d	£	s	d	£	s	d.	£	s	d	£	s	d	£	s	d	£	s	d		£	s	d.
Works Order 1674																									
Works Order 1680																									
Works Order 1682																									
Works Order 1704																									
Pattern Shop Tools																									
Foundry Tools																									
Foundry Plant																									
Machine Shop Tools																									
Smith's Shop Tools																									
No 40 Hydraulic Press																									
No. 70 Capstan Lathe																									
No. 2 Gas Engine																									
No. 5 Crane																									

WAGES SHEET.

(With Provision for Payments on Account.)

FOUNDRY WAGES . ... WEEK ENDING ....

Date	Description	Folio	Order No	Hours	Day Work, Hours	Value.				Weight.	Rate	Amount Chargeable			Carried Forward			Brought Forward			Amount Payable.		
						Rate	Amount																
1	2	3	4	5	6	7	8			9	10	11			12			13			14		
							£	s	d.			£	s	d	£	s	d	£	s	d.	£	s.	d
(1st week)	26 A Jones, Moulding Cylinder		2008		6						1s					6						6	
(2nd week)	26. A. Jones, Moulding Cylinder		2008		9						12s		12						6			6	

The working week usually ends on Thursday night to enable the wages sheets to be prepared for payment on Friday evening.

Since it would be inconvenient to post each individual time sheet to the relevant job or jobs, or to the Capital Expenditure and similar accounts to which they relate, the time sheets are grouped and analysed in an *Abstract of Wages*. A form of Abstract suitable for the latter class of expenditure is illustrated opposite.

The form opposite is similar to that for an Abstract of Wages on chargeable orders, except that more headings are necessary for the latter. The left-hand column contains order or contract numbers only. In practice, one order number usually collects wages paid to a number of men, and to prepare and balance it with the total weekly wages paid is frequently a long and troublesome undertaking. The wages paid under each order for every operation are totalled, and from these preliminary sheets the totals are transferred to a Wages Cost Book, which serves the purpose of summarising and collecting the wages in a convenient form. The monthly totals of this book may be transferred to the Cost Ledger. Some form of segregation is essential, otherwise direct detail postings to Cost Ledger Accounts would quickly render the ledgers unintelligible.

No detailed reference has hitherto been made to wages expended in connection with repairs of machinery and plant, tool making, new plant, or other capital expenditure, but there will always be expenditure week by week under these headings. Items of this kind will have been included in the column headed "Chargeable Wages," and as shop orders will have been issued for the work, they may appear at the foot of the analysis

In some cases the analysis is carried still further, and, in place of the space provided on the above form for wages expended on plant, the actual machine numbers are shown. This plan has the advantage of enabling the works manager to keep himself informed of the cost of the repair and maintenance of every important piece of plant in the shops.

Payments on Account.—Another factor which still further complicates the record and analysis of wages arises in connection with payments made on account of piece-work in progress. Some piece-work jobs inevitably remain uncompleted at the week-end, and for these payments on account are made. It is necessary then to record such advances on the wages sheets. In a foundry, for example, it is customary to pay all moulders on a piece-work basis. Until the castings upon which they have been working have been "fettled," i.e. cleaned up and passed for despatch to customers, the responsibility for "wasters" remains with the moulder.

Foundry Wages Sheet.—The ruling shown opposite, or an adaptation of it, serves to illustrate a method by which track may be kept of these payments on account, so that they may be brought forward to the following week when the job is completed, and the workmen is entitled to draw the balance due to him at piece-work rate.

The posting to the Cost Ledger, or Cost Time Book, is only

made when the job is finished and the work has passed "inspection" and the total wages paid is known. Customarily, a moulder on piece-work is only entitled to payment for finished and "passed" castings, and consequently he receives an advance on account at day work rates. But if the casting eventually proves faulty, not only would he have nothing further to draw on it, but he would be in debt to the amount of the advance already received, and must work off the debit. It is undesirable, therefore, to post wages paid on account to the Cost Ledger. The following illustration shows the mode of utilising the Wages Sheet.

Illustration.—A moulder is working on a cylinder casting which he cannot complete by the end of the week. The piece-work price of the job on completion is, say, 12s. He has, however, spent six hours' work on it, and is, therefore, entitled to draw six hours at his ordinary hourly rate of, say, 1s. per hour on account. His name and the description of the work are shown in Col. 2, and the six hours worked in Cols. 6, 10, 12, and 14.

The following week, when the job is completed, the description and order number appear as before on the Wages Sheet, and details are shown in Cols. 10 and 11 at the piece-work rate, less the amount brought forward from the previous week, now shown in Col. 13. The balance due to the worker appears in Col. 14.

Cols. 7, 8, and 9 have no relation to the wages columns, and are useful only for recording the selling price, value and weight of the work done. The total weekly output both in value and weight is thus quickly arrived at, and for jobbing work the weight of the castings at the recognised price of metal, plus wages and allowances for overhead charges, enables an invoice to be promptly prepared from Cols. 7 and 8.

A further form of Wages Sheet which has proved its usefulness in many cases is shown at p. 763. It is rather specialised in form and difficult to explain lucidly in a text-book. The week's wages (all at day-work rates) are calculated from the particulars contained in Cols. 11, 12, 13, and 14. The difference between the day-work rates paid and the piece-work rates earned in the previous week is brought forward in Col. 15. This balance is added to the total day-work wages shown as earned in Col. 14 and as paid in Col. 16. Early in the following week the piece-work rates are calculated and entered in Cols. 4 to 9, and the balance to be carried forward and paid in the following week is entered in Col. 10.

It will be seen from the above explanation that Col. 14 + Col. 10 = Col. 8. In the following week Col. 10 appears in Col. 15. Therefore Col. 14 of the first week + Col. 15 of the second week = Col. 8 of the first week. Thus everything that has been paid, as shown in Col. 16, has appeared in Col. 8, and from there has been charged out, appearing eventually in its appropriate place in the Cost Ledger.

The balances brought forward and carried forward are shown in red ink. Where, however, the piece-work has amounted to a less sum than the day-work time already paid for, the workman is in debt. In this event the amounts are entered in the same columns as above, but in black ink.

The Posting of Wages.—The student will have gathered from

WAGES SHEET.

WAGES WEEK ENDING ....

Work-man's No (1)	Detail (2)	No (3)	Hours. (4)	Hours (5)	Rate (6)	Folio (7)	Cost. Amount (8) £ s d.	Total (9) £ s. d.	Balance Carried Forward (10) £ s. d	Hours Worked. (11) F	S	S	M	T	W	T	Total Hours (12)	Rate (13)	Time Amount. (14) £ s d	Balance Brought Forward (15) £ s d	Amount Paid. (16) £ s d.
	Week ending April 7th						130 16 4		*7 8 6*										123 7 10	*5 9 5*	128 17 3
	Week ending April 14th						180 11 11		*10 15 9*										169 16 2	*7 8 6*	177 4 8

ANALYSIS OF EXPENDITURE BOOK.

Date.	Detail	Folio	Total. £ s d	Pattern Shop. £ s. d	Foundry. £ s d	Machine Shop. £ s d	Fitting Shop. £ s d	Stores. £ s d	Drawing Office £ s d	General Expenses. £ s. d.
	Wages * —									
	Repairs to Tools		29 0 0		7 0 0	18 0 0	4 0 0			
	Repairs to Machinery		58 0 0			58 0 0				
	Repairs to Buildings		16 0 0		16 0 0					
	Indirect Wages		151 0 0	20 0 0	68 0 0	25 0 0	38 0 0			
	Stores * —									
	Repairs to Tools		23 0 0		2 0 0	20 0 0	1 0 0			
	Repairs to Machinery		24 0 0			24 0 0				
	Repairs to Buildings		10 0 0		10 0 0					
	Sundries		25 0 0	15 0 0	3 0 0	2 0 0	5 0 0			
	Salaries * —									
	Sundry Officials		120 0 0						120 0 0	
	Foundry * —									
	Machinery		60 0 0	7 0 0		21 0 0	15 0 0	17 0 0		
	Tools		8 0 0				8 0 0			
	Packing Expenses *		13 0 0							13 0 0
	Office Expenses *		47 0 0						47 0 0	
			584 0 0	42 0 0†	106 0 0†	168 0 0†	71 0 0†	17 0 0†	167 0 0†	13 0 0†

* Posted to credit of accounts shown, in Nominal Ledger of financial books. No credits required in Memorandum Ledger

† Posted to debit of accounts as above, in Nominal Ledger of financial books. Also debited in Memorandum Ledger, after analysis.

the foregoing remarks that all wages must be charged up in the Cost Books in some form or other, the postings being made from the Analysis Sheets, which have been prepared from the Wages Sheets. When summarised, wages will find their way to one or other of the following :—

(a) The individual cost accounts of separate jobs or contracts in the Cost Ledgers, unchargeable wages being posted to "Shop Charges" or some other suitable account.

(b) The Plant and Machinery Register, either as a whole or to individual machines.

(c) The Loose Tools Account, either as wages expended on making tools, or on repairs to, and maintenance of, existing appliances.

(d) As a charge to "Inside" orders on the firm's own account, either in connection with capital or revenue expenditure.

Agreement with Financial Books.—It has already been stated that it is not advisable that the entries in the financial books should be dependent upon those from which the costing system has been compiled. It is, nevertheless, desirable that the Cost Accounts should agree with the financial books.

This agreement can be achieved with reasonable accuracy with a little extra labour by making a few alterations in the financial books, such, for instance, as the provision of space in the Purchases Journal for direct purchases, and the analysis of the weekly wages as between direct and indirect labour, and similar matters dependent upon the nature of the business.

The weekly pay cheque will be drawn as usual in accordance with the total wages sheets, as made up by the wages clerks from the time, or clock, sheets, and the items will be posted from the Cash Book in due course to the Wages Account in the Nominal Ledger. When the analysis of the wages has been completed, as described above, entries will be made crediting Wages Account and debiting Chargeable Wages Account.

This may be effected either by means of the Purchases Journal, as stated above, or by means of a book ruled in similar form, which may be called *Analysis of Expenditure Book.* This book would be used for numerous transfers each month, not only for wages, but for a variety of items representing departmental or shop transfers of materials and general expenditure. A suitable ruling for such a book is illustrated at p. 763. The ruling could be varied to suit individual requirements.

The totals of the vertical columns are posted to the debit of the various departments or shops, and the cross totals in the first column on the left hand to the credit of the appropriate accounts in the Nominal Ledger. It will be seen, however, that these debits and credits in the Nominal Ledger involve accounts which cannot be extracted at balancing periods and transferred as they stand to the Profit and Loss Account. There will be

Nominal Accounts for each shop or department, the object being to collect in these accounts the numerous items of Purchases, Materials Transferred from Stock, Unchargeable Wages and General Expenditure which go to form the total of the "Indirect Charges" incurred by each shop during the period, with a view to ascertaining a unit of charge under this heading in the Cost Accounts for the ensuing period.

In order that the extraction of the usual Profit and Loss items may not be interfered with, or may be rendered possible, a columnar form of Memorandum Ledger will be necessary, the accounts appearing in which will comprise the usual accepted Profit and Loss Account items. Let us assume, for instance, that the monthly total of the column headed "Fitting Shop" in the "Analysis of Expenditure Book" (£71) is being posted to the debit of the Fitting Shop Account in the Nominal Ledger. It will be necessary to analyse this total under Profit and Loss Account headings and to post the resulting amounts to the respective accounts in the Memorandum Ledger, i.e. Wages (£42), Repairs to Tools (£9), Repairs to Machinery (£15), and Stores (£5). From the details in the Memorandum Ledger it will be a simple matter to agree the total of the items appearing in each shop account in the Nominal Ledger, and by means of Journal entries to completely wipe out the items in these accounts and transfer them to the usual accounts in the Ledger. Although transferred from the shop account in the financial books in the manner described, the detail remains there, with ready reference to the Analysis of Expenditure Book, so that it can be easily ascertained how the total of the Indirect Expenditure has been arrived at. This process is not so complicated as it may appear, although admittedly some labour is involved in carrying it out.

The method explained above is, moreover, capable of further expansion So far only those items which actually occur in practice have been dealt with. An item such as Rent, for instance, which is ordinarily posted direct from the Cash Book to the Rent Account in the Nominal Ledger, might be posted instead to the account of the shop to which it relates, thus being placed on record as a charge against that particular shop. At the end of the year the items would be transferred, through the Journal, to the Rent Account proper, and as such dealt with in the Profit and Loss Account. The details would still remain on record in the closed accounts, and the information contained in these shop accounts will be found to be invaluable for purposes of comparison in subsequent years.

MATERIALS.

We now come to the second item comprised in our total cost of production, viz. materials.

The student will realise, upon consideration, that materials cannot be charged out with the same facility as direct labour, and also that, in the endeavour to reconcile the costing figures with those contained in the financial books, some discrepancy in

MATERIALS ABSTRACT.

No. of Job.				No. of Job.				No. of Job.				Inside Items												Summary.				
												Plant.				Loose Tools.				Other Items								
No. of Requisition	Amount.			No of Requisition	Amount			No. of Requisition	Amount.			No of Requisition.	Amount.			No. of Requisition	Amount			No of Requisition	Amount			No of Job.	Amount.			Cost Book Folio.
	£	s.	d.		£	s	d		£	s.	d.		£	s.	d.		£	s.	d.		£	s	d.		£	s.	d	

COST LEDGER.

Name of Customer........................ Terms of payment .... No. of Contract .....

Address........ .... Date completed........................

Date.	Details.	Wages.						Materials from Store.						Direct Purchases					Direct Expenses.					Oncost Expenses.				Total Cost.		
		Workman's Name.	Hours	Rate	Amount			Requisition No	Details	Stores Folio.	Amount			P.J. Folio	Details.	Amount.			C.B. Folio	Details.	Amount			Folio.	Amount					
					£	s.	d.				£	s.	d.			£	s	d.			£	s	d		£	s.	d	£	s.	d.

respect of materials is almost inevitable. The most that can be achieved is to confine the discrepancy within the narrowest possible limits, consistent always with regard to the cost of the time expended upon the task.

Methods of Record.—The first thing to ensure is that the system of recording the receipt and issue of materials from store should be accurate. This matter has already been discussed at pp. 745–52.

All goods required in the workshops must be drawn from the store-keeper by means of authorised requisition forms as shown at pp. 747. The price at which the goods withdrawn are charged out is that noted on the stock cards, which consists of the cost price plus carriage inwards calculated to the nearest workable fraction per unit. These requisitions should be summarised weekly in a form suitable to the requirements of the business.

Materials Abstract.—A specimen Materials Abstract is given at p. 766.

The weekly totals shown in the Abstract must be posted in the Cost Ledger to the job or item of expenditure to which they relate. All materials returned to store should be entered in red ink in the Abstract and deducted from the item to which they relate. If goods are purchased specially for any particular contract or job, they should be charged direct through the medium of the Purchases Journal, in which suitable columns should be provided for "Direct Purchases" (Number of Job, Amount, Cost Ledger Folio, etc.).

The Purchases Journal will be in columnar form, with headings to accommodate the following particulars :—

(1) *Expenditure Chargeable Direct*, for all special purchases made for particular jobs or contracts.

(2) *Separate Columns for each Shop*, to which all purchases, whether capital or revenue, are posted if bought specially for a particular shop. An analysis of each of these accounts should be kept in a subsidiary book (i e. Memorandum Ledger), as already explained, in order that the requisite Journal entries can be made at the end of the year.

(3) *Stores*—All other purchases, of whatever description, should be debited to "General Stores," and the accounting methods employed for dealing with stores should be made the medium for charging out all issues of goods. The necessary entries should be made monthly through the "Analysis of Expenditure Book" previously described.

In similar manner, all expenses which directly relate to particular jobs should be posted from the Cash Book to the relative Cost Ledger Accounts. The treatment described above will exhaust all the expenditure for direct labour, materials, and expenses.

Agreement with Financial Books.—As there are records in the financial books of all materials purchased, and in the stores books of all materials issued, the balance, after adjusting any carriage

inwards charged up, should represent the cost of the stock remaining in hand, but owing to wastage, negligence, and other causes, this agreement is seldom achieved. The discrepancy should not, however, exceed defined limits, and, if it does, prompt investigation should follow.

The student will appreciate that the "General Ledger" of the financial books, with its limited number of accounts dealing with cash figures only, bears little or no resemblance to the average Cost Ledger. Once started, the Cost Ledger grows at an alarming pace, and the possibility of error in posting is thereby much augmented, while at the same time facilities for checking are almost non-existent as compared with those available in connection with the financial books. Some accounts are opened and closed again almost immediately. Others, again, may run on for several years. The building of a bridge or dock, for instance, may necessitate the opening of two or three hundred accounts for the one contract, and may extend over a long period.

Costing, even in its simplest form, is a specialised branch of accounting, whilst in important concerns executing a variety of work on a large scale it becomes a complicated science, and the chief cost accountant may have several hundred clerks and assistants working under him. Obviously, therefore, in such cases the work must be split up to a great extent.

It may be mentioned that for costing purposes Loose Leaf Ledgers are frequently found very useful, particularly in connection with Terminal Costing. As jobs or contracts are completed, the sheets may be transferred to separate binders, and the current book or books will then contain only "live" accounts. A word here to the book-keeper who is called upon to design a Cost Book may not be out of place. Do not attempt to unduly stint space or save paper. The great diversity of entries in a Cost Book is frequently not apparent until one is faced with the actual collection of the necessary details. When they are fresh in mind it is comparatively simple to record them, but it must be remembered that cost accounts may be used for reference purposes for years to come when estimates for similar work are being prepared. It is therefore desirable that the necessary information should be recorded in ample detail and in a form readily understandable by others.

Postings to the Cost Ledger may be made weekly or monthly, or even from day to day, but for purposes of comparison with the financial books it is desirable to follow the periods for which postings are made in those books.

Sometimes a columnar type of Cost Book is found very useful, as, e.g., that illustrated at p. 769. Each column represents a week or a month as the case may be, and at the end of every four periods the totals are carried forward to a fresh sheet.

In the form given it will be seen that several lines are available for the diverse entries previously referred to. The main headings only, applicable to the class of business for which this book was designed, are shown.

COLUMNAR COST BOOK.

Brought Forward.																											
Weight.				Amount					Folio	Weight				Rate	Amount				Folio	Weight				Rate	Amount		
T	C	Q	L	£	s	d				T	C	Q	L		£	s.	d.			T	C	Q	L		£	s	d.
							Steel Purchased .																				
							Steel, ex-Stock . .																				
							Rivets																				
							Smithwork .																				
							Cast Iron . . .																				
							Sundry Purchases .																				
							Stores and Sundries ..																				
							Wages																				
							Erection Wages . .																				
							Erection Expenses ..																				
							Etc , Etc																				

COLUMNAR COST BOOK—*continued.*

																				Carried Forward						
	Folio	Weight				Rate.	Amount				Folio.	Weight				Rate	Amount.			Weight				Amount.		
		T	C	Q	L		£	s	d			T	C	Q	L		£	s	d	T	C	Q	L	£	s	d.

The Cost Ledger.—In this book are assembled the various components of the cost of every job, contract, series of articles, or other unit that may be decided upon. Separate accounts are opened for each operation to be costed. A form of Cost Ledger is shown at p. 766.

The information necessary for posting this Ledger is derived from the Abstract of Wages, Materials Abstract, Purchases Journal, and Cash Book.

Work in Progress.—Although cost books are distinct from the financial books, they will provide the material for valuing Work in Progress, an item frequently found in the annual accounts In some cases the value of Work in Progress assumes great importance, and an inaccurate valuation will vitiate the reliability of the trading results shown by the accounts. In the absence of accurate costing records a trustworthy valuation is practically impossible. Assuming that the Cost Ledger has been written up to date so far as Materials and Labour are concerned, each open account will require to be completed by adding its appropriate proportion of Oncost or Overhead Charges, in order to determine the Gross Cost. It is usual to add to the Gross Cost some portion of the profit which the job as a whole will have earned when completed. If the selling price is known, as in the case of a contract, for instance, it can be seen whether the cost is being maintained within the estimate, and, if such is the case, a proportion of the profit may legitimately be added to the Gross Cost. In valuing Work in Progress, it is not wise to include the full estimated profits, but to reserve a substantial margin for contingencies until the work has actually been completed. Such prudential treatment will, taking one year with another, generally work out equitably.

Work Executed at a Distance.—When work is executed away from the main works, e.g. the erection of a bridge, probably large quantities of material will be sent direct to the site, and it will then be imperative for a careful check to be maintained by the clerk of the works or the erecting manager responsible for the work. Arrangements must be made with the works manager to ensure that the receipt of all material is carefully verified and recorded, and that full particulars are rendered in due course to the head office to enable the accounts to be checked before payment is made. Very frequently, moreover, material remains unused, and is returned to the suppliers or sent to the works. The Cost Clerk should be made responsible for ascertaining that the contract is duly credited with these returns.

Frequently also, owing to the impossibility of rendering a proper Wages Sheet in time to enable the requisite cheque to be sent, a round sum is forwarded to cover the amount required for the weekly wages, the balance being retained in hand towards the following week's wages and expenses. In such cases properly vouched returns will be required each week from the Clerk of the Works, and also an analysis of the wages if it is necessary to analyse the cost of different portions of the work.

ONCOST EXPENSES.

Having dealt with direct wages and materials, we now come to the third and last item in the cost of production, viz. Oncost Expenses. The term "oncost," embraces all expenditure essential to the proper upkeep of the factory, and includes all such indirect expenses as establishment, administration, distribution, and similar charges These are essential additions to the cost of production, although they cannot be earmarked to any particular job, contract, or item of manufacture, but are common to all. Broadly speaking, oncost covers all expenses other than direct expenses. Some of the items generally included in oncost are largely independent of the turnover, which might be increased considerably without much addition to them.

Bases of Apportionment.—The task of the costing staff is to devise an equitable method of charging out the whole of the estimated oncost for the year over the output for the year. It will be clear that the only way of dealing with oncost expenses when calculating the cost of a particular job or article is to adopt some equitable method of apportionment. This is by no means always an easy matter, and the mode of doing it has been the subject of much discussion and controversy. But there can be no hard-and-fast rules for apportioning oncost charges, since the needs of each individual undertaking must be considered. The work executed is so diverse, and the ratio of labour to materials varies so widely, that rules which may be equitable in one case may be inequitable in another. In some cases, moreover, the organisation of the factory dictates to a greater or less degree the method of apportionment that must be adopted. Where a standard unit, e.g. per ton, per barrel, or per hundred or thousand articles, can be adopted, apportionment presents little difficulty, but it becomes troublesome when a number of diverse articles must be dealt with. Interesting as the different views upon the subject of oncost doubtless are, general principles only can be dealt with in the space available in this treatise.

Two Classes of Oncost.—There are two main divisions of oncost, viz. (*a*) Shop or Works oncost, and (*b*) Office or Administration oncost. The former class (*a*) includes such items as the wages of foremen, furnace and boiler men, time and store-keepers, crane drivers, yard men, labourers, and the like, whose wages are not directly chargeable to any particular job or contract. Under the same heading must also be included such items as the cost of factory power, lighting and heating, repairs to buildings, machinery and plant, water supply, rent, rates and taxes of the factory, depreciation, royalties, wayleaves, etc. The latter class (*b*) covers office and administration expenses common to the whole business, such as office, showroom and warehouse rent, rates, taxes, insurance, lighting and heating, travellers' salaries and commission, office salaries and expenses, directors' and managers' salaries, carriage outwards, packing expenses, advertising, etc.

Both shop and office oncost expenses can only be added to

prime cost by means of estimates based upon past experience. In the case of a new business the experience of similar undertakings must be sought and utilised. Always the estimates should be revised at frequent intervals.

Shop Oncost.—There are several bases of apportionment employed in connection with shop oncost expenses, e.g. a fixed percentage on (*a*) the cost of materials; or (*b*) the cost of labour (time or cost), or (*c*) on (*a*) and (*b*) combined; or (*d*) a fixed rate per hour worked; or (*e*) a fixed rate per machine hour worked; or (*f*) a fixed sum per unit of production.

Probably the most usual and equitable basis in most cases is a fixed percentage upon the cost of the direct labour included in the prime cost. This percentage will represent the ratio between the total oncost expenses and the total productive wages. As a general rule, the time occupied represents a closer relation to direct wages than to prime cost. The cost of material fluctuates, while the cost of labour, in normal times, is more or less steady. It will be obvious, however, that this method is misleading in cases where indirect labour forms the greater part of the cost of production. The hourly rate (*d*) is arrived at by ascertaining the ratio between the total oncost expenses and the total number of hours worked apportioned over the various jobs according to the time they occupy. This basis will also prove misleading if the plant employed comprises machines of greatly varying cost. The machine rate (*e*) is arrived at by taking the first cost of the machine, less any residual value, and adding the estimated cost of maintenance to the rental value of the space occupied, and dividing this total by the estimated number of working hours embraced in the life of the machine. This calculation will give the hourly rate chargeable to each article according to the time the machine was operated in its production. This basis contains a large element of estimate, and is unsound in cases where much hand work is necessary There is, moreover, the fact that it is impossible to ensure that the machines shall remain at work for the total number of hours estimated for when the calculation was made.

Enough has been said to indicate that dogmatism is out of place in connection with the apportionment of shop oncost, the individual factors of each particular case must be taken into consideration when fixing the basis to be adopted. It may, however, be claimed that, while no system will achieve absolute accuracy, the most equitable basis in most cases is the fixed percentage on the direct wages, a definite percentage on wages, say 50 %, being added to prime cost on the completion of the job or contract in order to arrive at shop or works cost. This method may not be very scientific, but as a general rule it is reasonably near the mark; more elaborate methods may easily cost more and achieve less.

Office Oncost.—In some cases administration oncost is charged out as a percentage upon works cost This method is somewhat rough and ready, but here again individual conditions must be

considered. In some cases various items are separately dealt with as explained below.

Apportionable Expenses.—A trading account prepared on lines similar to those shown in the account given below will provide the details of past experience necessary for determining oncost charges.

TRADING ACCOUNT FOR THE PERIOD ENDED ....

	£	s.	d.	£	s	d		£	s	d.	£	s.	d.
To Direct Wages							By Sales						
" Direct Purchases													
" Direct Expenses													
" Balance carried down													
£							£						
" Indirect Works Expenses—							By Balance brought down						
Rent, Rates, Insurance, and Lighting Expenses . .													
Indirect Wages ..													
Cost of Power . ..													
Repairs and Maintenance of Plant, Tools, Buildings, etc													
Depreciation . ..													
Sundry Works Expenses . .													
Carriage and Packing													
" Office Expenses—													
Rent, Rates, Insurance, Heating, Lighting, and Water .													
Office Salaries and Expenses .. .													
Directors' Fees ..													
Motor Expenses ..													
Manager's Salary													
Travellers' Salaries and Commission													
Incidental Expenses													
Advertisements ..													
Cash Discounts ..													
Royalties													
Bad Debts													
£							£						

The Shop Oncost must be apportioned on the basis which has been adopted as the most equitable in the circumstances. The total of the Office Oncost expenses is usually divided equitably amongst the various departments, on the basis of (*a*) the floor space or cubic capacity occupied by the department; or (*b*) the output of the previous year; or (*c*) the average power consumed. Each department then allocates its proportion of the whole over the articles manufactured upon the basis of the time occupied, or such other method as may be judged suitable.

Sometimes individual charges are separated from the total and dealt with on special lines. Such items usually consist of rent, lighting, heating, cleaning, superintendence, insurance, depreciation, and the like. The method of apportionment may be horse-power hours, current used (where separate meters are installed), cost of labour and material, or some other basis applicable to the circumstances. Thus, rent and rates may be

charged to the various departments by means of an estimate of the rental value of the space occupied; salaries of office staff and travellers upon the value of the output of the previous year; cost of power upon the horse-power consumed; lighting upon the number and wattage of lighting points in use; depreciation and similar charges upon the approximate amount of capital involved; and so forth. Again, advertising and the cost of catalogues are frequently charged out separately against the departments deriving the chief benefit from the expenditure.

Interest.—Much discussion and division of opinion has arisen with reference to the question of including interest in oncost calculations. If interest is to be dealt with at all, it must be dealt with in its widest meaning, and this raises difficult and complex questions, which, it is suggested, the advocates for including interest frequently ignore. The allocation of interest between the various departments can only be made on arbitrary lines, and the task of fixing a reasonable rate of interest is by no means easy. Is it to be the rate the manufacturer could obtain on outside investment? If so, what is that rate? Are the changes in the Bank rate and in the values of Stock Exchange securities to be taken into account as they occur? It cannot be denied that any process of manufacture must involve the use of capital for varying periods, but the exact ascertainment and apportionment of the true amount of interest chargeable involves more labour in most cases than it is worth. In any case, it is suggested that interest is more accurately treated as a portion of the profit earned and left out of oncost calculations. Costing records should be confined to the actual cost to the works rather than to the proprietor of the business. The usefulness of costing records lies largely in the test they afford of the efficacy of the organisation and its works manager, who is, in no sense, responsible for the financial side of the undertaking.

Having adopted our basis of apportionment for oncost expenses, we arrive at the following table of cost of any given job or series of articles :—

	£	s.	d.
Direct Wages			
Materials			
Direct Expenses			
PRIME OR FLAT COST .. .. .. £			
Works Oncost (say 50 % on wages)			
WORKS COST.. .. .. £			
Office Oncost (say 15 % on works cost)			
COST OF PRODUCTION .. .. .. £			
Profit			
SELLING PRICE .. .. £			

WASTAGE.

Loss of Material.—It will be appreciated that in practically every manufacturing process some wastage of material is bound to occur. In the majority of cases, perhaps, the manufactured article may be charged with the full weight or quantity of the material issued for use, there being little or no residual value in the cuttings, turnings, or pieces that may be left over. In machining iron or steel, for instance, the borings and turnings would be swept up from the floor and, if a sufficient quantity was accumulated, it might be sold at a low figure as scrap. It would be impossible, however, to allocate to any particular job the value realised for such scrap, and therefore, in practice, the whole cost of the original material issued would have to be borne by the article manufactured. In calculating the selling price of a machined casting on the basis of finished weight, the loss in weight must be taken into account, and the full original weight be charged. If, however, the material under manufacture is brass, copper or aluminium, the question of wastage assumes a different aspect. The turnings or borings may amount to a considerable percentage of the original weight, and to enable a manufacturer to quote a competitive selling price due allowance must be made for the residual value of the scrap, since these descriptions of scrap sell for a relatively high figure, and the cost account of the job must be credited accordingly. Proper record, therefore, must be kept in order that the selling value of the scrap may be dealt with.

By-Products.—In many manufacturing businesses another type of wastage occurs which requires careful watching and special treatment in the cost books. Such wastage may assume the importance of by-products, but in such cases the by-product is known and allowed for in the costing records. Because there is usually a ready sale at high prices for these materials, the manufacturing processes are so arranged that the by-products may be produced in saleable form. A conspicuous example is the many residuals resulting from the manufacture of Gas, such as Benzol, Tar, Nitrates, Ammonia, etc. In such cases the proceeds derived from the sale of the residuals go to reduce the cost of the chief article of manufacture. In other businesses such advantages do not accrue, and although the resultant wastages have a certain value, it is desirable in the interests of economic production to keep the losses down to a minimum.

Illustration of Wastage.—As an illustration of the latter type of business the Rubber Manufacturing trade may be cited. It may be of interest to the student to illustrate the question of wastage by brief reference to the general process of manufacture incidental to the manufacture of solid band tyres. The rubber, if purchased in the raw or latex form as produced on the plantation, has first to be thoroughly washed to remove all impurities. Considerable loss occurs in this process, the effect being, of course, to materially increase the price per lb. of the resultant washed

rubber. Not only is there loss in weight, but the cost of labour and the machinery and power used must also be taken into account. This process is now largely carried out on the plantations, and it is more general perhaps nowadays for manufacturers to purchase the rubber in the washed or creped condition, the price naturally being greater for rubber in this state. After washing and thoroughly drying, the rubber is compounded with other materials by means of heavy mixing machines in which the material is repeatedly passed between powerful rollers in order to produce what is then known as the dough or mixture. This in turn is passed through calenders which deliver the material in large sheets of an even and prearranged thickness. The next operation is the cutting of the sheets into strips of varying widths by special machinery. The bases on which solid band tyres are built up consist of heavy steel bands which, under pressure, exactly fit on the felloes of the wheels. The compound, now in strips, is wound longitudinally round and round these bands until the required size and shape is approximately obtained So far, it will be seen, no wastage or loss has occurred, apart from the loss in washing already mentioned. The tyre on the band is then placed in a circular mould, built in two pieces, and is pressed into shape while still cold. During this process a considerable surplus quantity of material is squeezed out. This uncured, or unvulcanized material represents what may be referred to as wastage No 1. It consists of a perfectly sound compound of the original value of the mixing, and has had time and labour spent upon it in the mixing mills, calenders, and strip-cutting machines, and during the process of winding on the steel bands, but inasmuch as it must again go through all these operations before it can be used, it cannot be said to have increased in value by reason of the work expended upon it, and it must go back into stock or store for re-manufacture at the cost of the materials contained in it. The band tyre, therefore, must bear the full cost of the labour involved in the operations on the whole original mixing, hence it will be seen that to avoid unprofitable labour and waste of time, great care must be exercised in building up the strip compound on the steel bands.

The tyre having been cold pressed is now transferred to an Autoclave press for vulcanisation. During this process it is subjected to a much greater pressure, which, in conjunction with the heat used in curing causes a further considerable quantity of material to "spew" out of the mould. This spew having undergone the curing process at the same time, and not being contained in the closed mould, is vulcanised without pressure, thus detracting considerably from its value Here we have Wastage No. 2 This spew is certainly not of the same value as Wastage No. 1. It has a certain market value as waste rubber only, and is disposed of as such by many manufacturers of tyres. The improvements in tyre manufacture effected in recent years

COST SHEETS.

FOUNDRY COST ACCOUNT FOR MONTH ENDING ....

	T.	C.	Q.	L.	£	s	d	£	s	d		T	C.	Q	L.	£	s.	d.	£	s.	d.
To Materials used—											By Castings made										
Pig iron											„ Scrap, wasters, runners, risers, etc.*										
Scrap iron											„ Loss in melting										
Furnace coke																					
Coal .. .																					
„ Sundry Stores, i.e. sand, coal dust, core iron chaplets, pipe nails, etc , etc. ..																					
„ Wages—																					
Moulders																					
Coremakers																					
Fettlers																					
Furnacemen																					
Labourers																					
Foreman																					
„ Proportion of fixed overhead charges																					
„ Profit																					

* Scrap wasters, etc , to be credited at value of scrap iron

COLLIERY COST SHEET.

Week ending .... Tons raised ...... Days occupied....

	Cost per Ton					
	£	s.	d.	£	s.	d.
I. *Underground Wages:*						
Getting and loading coal						
Transport						
Deputies						
Checking and ripping						
Roads and wayleaves						
New roads						
Faults						
Sundries						
Cost per ton				£		
II. *Surface Wages:*						
Labourers						
Joiners						
Fitters, smiths						
Pumping station						
Winding and ventilation						
Weigh-house						
Sundries						
Cost per ton				£		
III. *Working Expenses:*						
Timber (prop wood)						
Stable expenses						
Stores, underground						
Stores, surface						
Pit rails						
Repairs and renewals						
Ropes and chains						
Bricks, lime, etc.						
Coal used						
Rent and rates (surface)						
Depreciation						
Surface damage						
Royalties, wayleaves, etc.						
Sundries						
Cost per ton				£		
IV. *Management and Administrative Charges.*						
Salaries and commission						
Office and travelling expenses ..						
Bad debts and discounts						
Sundries						
Cost per ton				£		
Total cost per ton						
Average price realised per ton £				£		

NOTE.—Columns are sometimes provided for the insertion under each heading of the total figures to date for such portion of the financial year as may have elapsed prior to the current Cost Sheet. Columns for the purpose of comparison with corresponding periods are also sometimes useful

now enable a certain percentage of this spew to be used in compounding an original mixture. It is necessary, therefore, when arriving at the cost of manufacture to credit the spewings either

BREWERY COST SHEET.

Brewing No. .... Quality .... Date ....

Quantity.	Materials Used	Stores Book Folio	Price £	s.	d	£	s	d	Notes.
	Malt—								
	British								
	Foreign								Barrels—
	Sugar—								Brewed .
	Details								Racked ..
	Hops—								
	Details								
	Preservatives—								
	Details								Production—
	Other materials—								Barrels at a cost
	Details								of per barrel
	Duty								
	Less Grains sold .								
	Spent hops sold								
	Sundries sold ..								
					£				

NOTE.—After arriving at the cost of production, as shown in this section of the account, wages, water, fuel, and overhead charges would be added to complete the costing.

IRON FOUNDERS' COST SHEET.

Cost for week ending ....

Output: Tons .... cwt. .... qrs. .... lb. ....

	Weight. T	C.	Q	L	Cost per Ton of Output £	s.	d	Amount. £	s	d	Percentage on Sale Price.
(a) Pig iron											
Scrap iron											
Fuel											
(b) Wages											
Moulders' stores											
Clay, sand, etc											
Repairs, renewals											
Rent, rates, taxes, and insurance											
Office Expenses and Salaries											
Incidentals											
Depreciation											
(c) Oncost expenses											
Total Cost .. ..£											

at a price at which they may be sold as waste rubber or at whatever value they may possess when returned to stores for reissue in making up fresh mixtures. All the time and labour spent on these spewings has merely had the effect of depreciating the value of the materials of which they consist. Hence it will be seen that an accurate method of costing is not only essential for the purpose

COST OF CONTRACTS IN HAND, DECEMBER 31, 19...

BUILDERS' ENGINEER.

No of Contract	Name of Contract.	Cost brought forward from last Cost Sheet			Iron, Steel			Scrap Iron, etc.			Stores Used.			Concrete, Bricks, Building Material.			Nuts, Bolts, Rivets			Paints, Varnish, Grease			Direct Wages		
		£	s.	d	£	s.	d.	£	s.	d	£	s	d.	£	s.	d	£	s	d	£	s	d	£	s	d

COST OF CONTRACTS IN HAND, DECEMBER 31, 19..—*continued.*

Indirect Wages.			Travelling and Incidentals			Fitters' Wages.			Carriage, Freight, Insurance			Estimated Cost of Completing *Contract.*			Total Cost			Contract Price.			Profit.			Loss.			Remarks.
£	s.	d	£	s.	d	£	s	d.	£	s	d.	£	s.	d	£	s	d.	£	s	d	£	s	d	£	s.	d.	

CONTRACTS COST BOOK.

CONTRACTORS, BOILERMAKERS, ETC.

Contract Book No	Description of Contract.	Boiler Makers			Fitters			Smiths			Turners			Brass Moulders			Painters and Carpenters.			Bricklayers and Masons.			Materials Issued						Proportion of General Charges			Credits			Total Cost.		
																								From Stores.			Direct Purchases						Sales, Returns to Store, etc					
		£	s	d	£	s.	d	£	s	d	£	s	d.	£	s.	d.	£	s.	d.	£	s	d	£	s	d	£	s	d	£	s.	d	£	s.	d	£	s	d.

TAILORS

Order No.	Description of Order	Cloth Used	Quantity.	Cost.			Sundries Used.	Wages Paid			Prime Cost			Selling Price			Profit.		
				£	s	d.		£	s	d	£	s.	d.	£	s	d	£	s.	d

FOUNDRY PROFIT AND LOSS ACCOUNT FOR FOUR WEEKS ENDING ....

	T	C	Q	L		£	s.	d.	£	s.	d.
To *Materials Used*—											
Pig Iron	45	0	0	0	£9				405	0	0
Scrap Iron	45	0	0	0	£5				225	0	0
	90	0	0	0					630	0	0
„ Foundry Coke									140	0	0
„ Coal for Ovens									100	0	0
„ Sand, Ganister, etc									48	0	0
„ Sundry Stores, Timber, etc									29	0	0
„ Carriage, Inwards									35	0	0
„ *Wages*—											
Foreman						20	0	0			
Moulders						120	0	0			
Coremakers						115	0	0			
Pattern Makers						80	0	0			
Fitters						100	0	0			
Labourers						230	0	0			
Yard and Crane Men						78	0	0			
									743	0	0
„ Foundry Oncost— 150 % on Productive Wages, £315									472	10	0
„ Profit..									429	3	8
								£	2,626	13	8

	T	C	Q	L		£	s	d	£	s.	d.
By *Output*—											
Castings, Good (at selling price)	75	10	0	0					2,820	14	4
Less Returns, 2-10-0-0 .. .						94	0	0			
Carriage, Outwards						87	0	0			
Discount						68	0	4	249	0	4
									2,571	13	8
Runners, Risers, and Metal run down	7	0	0	0	£5				35	0	0
Waster Castings, 4·44 %	4	0	0	0	£5				20	0	0
Loss in Melt, 3·88 %	3	10	0	0							
	90	0	0	0							
								£	2,626	13	8

of regulating selling prices, but also to ascertain that the manufacturing process is being carried on as economically as possible, with a view to reducing the amount of scrap made. The data obtained are not only of use to the selling side of the business, but are invaluable to the technical or works side as indicating where efforts to save loss should be directed, in order to increase the output.

In Chapter II, page 38, reference has been made to the presentation of costing results by means of graphic charts.

A few specimen cost sheets are given on pp. 777–82.

FOUNDRY COST ACCOUNT.

A useful method of keeping in view the cost of Foundry work is a Monthly Profit and Loss Account, prepared as shown at p. 782. This account deals with the Foundry as a whole, and makes no attempt to arrive at the cost of individual castings. Dealing first with the credit side, the item "Castings Good" represents the total output in weight during the period and the total selling value. These figures can be obtained from the weekly wages sheets, if special columns are provided enabling a full record to be kept.

"Runners, Risers, and Metal Run Down" represents spoiled castings and overplus of metal run down. A daily record of these items should be kept by the foreman, and a careful watch be exercised by the works manager to see that the percentage is not unduly high. This weight can only be credited at the current market price of scrap of the same type.

"Loss in Melt," which ought not to exceed 5 %, should explain the difference between the total weights into and out of the cupola.

On the debit side of the account we have "Pig Iron" and "Scrap Iron," the figures relating to which can be obtained with accuracy by means of memorandum Stock Accounts kept in the office. These accounts, in turn, may be checked against the materials used, as recorded in the foreman's "Charge Book."

Similar memorandum Stock Accounts for Coal and Coke enable an accurate charge to be made for these items; but it should be noted that the actual stocks in hand must be periodically checked with the balances shown in the memorandum books as being in stock.

The details of "Sundry Stores" are obtained from the storekeeper's books. Particulars of "Wages" are obtained from the Wages Sheets.

"Oncost Charges" are estimated at one-twelfth of the annual charges, or at any other percentage that may from time to time prove more equitable.

EXAMINATION QUESTIONS.

1. Outline briefly, with sketches of books, any system of entering and checking the stores used in a manufacturing business with which you are familiar, and of which you approve. (*Royal Society Arts.*)

2. In a business consisting of various departments, in what way would you keep the Stock Accounts so as to (a) minimise the danger of false returns by the manager, and (b) prevent theft on the part of dishonest employees. (*Royal Society Arts*)

3. A client of yours, who manufactures small machine parts, asks you to initiate a system of cost accounts in his works and to conduct a half-yearly audit of the costing books

What books, other than the ordinary financial books of account, should you recommend your client to adopt ?

Detail briefly the audit you would carry out. (*Chartered Accountants.*)

4. Draw up a system of cost accounts for a building contractor, and show how they would be co-ordinated with the financial accounts of the business. (*Chartered Accountants.*)

5. Clients of yours suspect a leakage in their stock, and request you to advise them as to the best method of recording the charge to, and issue from, stores of goods purchased.

Select one of the undermentioned businesses, and submit a short report on the system you advocate, together with specimen forms: Retail store (three departments); Engineer: Hardware merchant; Tobacco manufacturer. (*Chartered Accountants.*)

6. Describe a system of Hotel Stock Accounts for wines and spirits and mineral waters, and give a ruling of a bottled wines Stock Ledger. (*Chartered Accountants.*)

7. Briefly describe an efficient system of recording the receipt and issue of goods from store to departments in any manufacturing business with which you are familiar. Illustrate your answer with a sketch of a Stores Ledger you would recommend, and make three specimen entries therein. (*Chartered Accountants.*)

8. State briefly the principles governing cost accounts, and give a form of Cost Sheet suitable for a manufacturing business, entering not less than six items of cost relating thereto. (*Chartered Accountants.*)

9. What are the principal reasons for Cost Accounts ? What tests would apply to Cost Accounts so as to ensure their accuracy as far as possible ? (*Incorporated Accountants.*)

10. Under what headings may the various systems of Cost Accounts be conveniently classified ? Describe briefly the undertakings to which each system should be applied, and the advantages of keeping Cost Accounts. (*Chartered Accountants.*)

11. Describe shortly any system of Cost Accounts with which you are acquainted, giving sketches of the book rulings and illustrative entries. (*Chartered Accountants.*)

12. Give a short explanation of the form and method of keeping Cost Accounts, and give a form of Cost Sheet of either a colliery, iron works, or a foundry. (*Chartered Accountants.*)

13. Briefly explain the system of Stock and Cost Accounts which you would introduce in a cigarette manufacturing business.

Submit rulings of the Cost Sheet and any books you would recommend. In this connection deal with Tobacco; Cutting; Machining; Packing materials; Despatch; Wages and Oncost charges. (*Chartered Accountants.*)

14. State shortly (1) the advantages of Cost Accounts, and (2) draft a form of Cost Sheet for a cocoa manufacturer's business, providing for the following among other items of cost which may suggest themselves to you: Cocoa beans, Butter, Gum, Sugar, Colouring matter. (*Incorporated Accountants.*)

15. Describe a system of Cost Accounts suitable for a builder and contractor, detailing the nature and use of the books you would recommend, and showing how the Cost Accounts may be co-ordinated with the Commercial Accounts (*Chartered Accountants.*)

16. Explain briefly, with examples, the system of Stock and Cost

Accounts which you would introduce for use in the office of a firm whose chief articles of manufacture consist of small machine parts.

What is the step you would take in introducing the system you recommend? (*Royal Society Arts*)

17. Design a system of Cost Accounts suitable for a large contractor. State the manner in which their accuracy, or otherwise, is proved periodically. (*Incorporated Accountants.*)

18. Select an article in common use, describe the materials, labour, and expenses which enter into the cost of producing it, and frame a Cost Sheet in a form calculated to present details of the cost of production in the most useful form to the manufacturer. (*Royal Society Arts.*)

19. Select a type of wholesale business, and describe an efficient system of recording the receipt and issue of goods from store, and illustrate your answer with a sketch of a "Stores Received and Issued Book" (*Royal Society Arts.*)

20. What books, in addition to the ordinary books of account, do you consider a manufacturer should keep in order to enable him to prepare a complete system of Cost Accounts? What information do you consider that such a system would provide? (*London Chamber Commerce.*)

21. Smithson & Co., in addition to a general engineering and repairing business, are manufacturers of pumps of four standard sizes, which they make and sell in large quantities They desire to inaugurate a system which will show them the cost of production of each standard size of pump. Set out briefly your suggestions as to how this could be accomplished (*Chartered Accountants.*)

22. What is a Cost Account? Give a specimen of a Cost Account suitable for use in some manufacturing business with which you are acquainted, giving both the ruling of such account, and also entering not less than six and not more than twelve items of cost relating to that particular manufacture (*Royal Society Arts*)

23. As auditor to the Lys Foundry Company, Ltd., you are asked to investigate the costing system in operation, more particularly with a view to advising how, in your opinion, the undermentioned items should be dealt with: (*a*) Indirect wages, e g. foremen, engine and boiler men, time- and store-keepers, labourers, etc. (*b*) Salaries and expenses of travellers. (*c*) Directors' fees, managing director's salary, and office expenses. (*d*) Rent and rates Submit your report to the directors (*Chartered Accountants.*)

24. You are asked to consider and report upon the costing system employed by a manufacturer of cycle accessories, more particularly as to whether the question of interest upon capital and loans should be taken into account in arriving at costing results.

Report briefly upon the latter point. (*Chartered Accountants.*)

25. A soap manufacturing company keep their Cost Accounts on the Card Index system. What are the advantages of the system for this purpose? Give an illustration of a card, and state what precautions are necessary where the raw material used is subject to violent fluctuations. (*Incorporated Accountants.*)

26. Robert Rheid is a cigarette manufacturer He desires to inaugurate an efficient system of costing Are any books or records necessary for this purpose other than the ordinary books of account? If so, describe them, and submit rulings of any books you recommend (*Royal Society Arts*)

27. The Universal Patents Company, Ltd., has a monopoly of an article much in demand and not likely to be superseded. It pays very large dividends. It has no efficient costing system. Does it need one? Give reasons. (*Chartered Accountants.*)

28. A firm of cigarette manufacturers ask you to audit their Cost Accounts. Briefly describe the information you would expect to obtain from the costing clerk, and the procedure you would adopt in order to test the accuracy of the figures submitted to you. (*Chartered Accountants*)

29. A firm of constructional engineers carry on a business which is almost entirely done under contracts. Most of the material required is purchased specially for these contracts, but quantities of general materials are also purchased for stock. They desire to be kept advised of the progress of the cost and the ultimate profit or loss on each contract as completed. State the general outlines of a system of Cost Accounts you would recommend for this purpose. (*Chartered Accountants.*)

30. State the unit or units of output or earning generally in use for preparation of Cost Accounts of the following: (1) Breweries, (2) Brickworks; (3) Collieries; (4) Electric light works; (5) Gas-works; (6) Iron and steel manufacturers; (7) Tramways; (8) Water-works. (*Chartered Accountants.*)

31. What do you understand by Cost Cards? Explain their preparation and uses. (*Incorporated Accountants.*)

32. You are instructed to audit the Cost Accounts of a firm of builders in respect of work done by them on contracts which have been completed.
Explain shortly how you would do this (*Chartered Accountants.*)

33. From the point of view of Cost Accounts, discuss and compare the practice of paying wages: (*a*) On the piece-work system; (*b*) On the day-work basis; (*c*) On the bonus or premium system. (*Chartered Accountants*)

34. What do you understand by the term "Oncost"? Upon what basis or bases do you consider it should be calculated? Give your reasons. (*Chartered Accountants.*)

35. A firm who manufacture three separate classes of goods are anxious to reconstruct their system of costing. They ask you to advise them how the overhead charges should be spread over the three departments.
Select a business, briefly describe its characteristics, and explain the basis upon which, in your opinion, the overhead charges should be apportioned. (*Chartered Accountants.*)

36. Dickson Brothers manufacture two staple articles and a by-product. They ask you to advise them upon what basis, or alternative bases, the overhead charges should be apportioned between the three departments.
State your views in the form of a report, dealing more particularly with (*a*) Rent and rates, (*b*) Discount and Bank charges; (*c*) Travellers' salaries and expenses; (*d*) Advertising; (*e*) Partners' and managers' salaries. (*Chartered Accountants.*)

37. In the Nominal Ledger of a firm of contractors you find the following account:—

COST BOOK ACCOUNT.

Dr.					Cr.
		£			£
Jan. 1	To Balance brought down..	3,000	Dec 31	By Contracts and Charges	45,000
Dec. 31	„ Goods and Materials from Stock	23,000		„ Materials returned to Stock..	2,500
	„ Wages	16,000		„ Balance carried down .	3,200
	„ Sundry Cash payments	200			
	„ Transfer to Profit and Loss Account .. .	8,500			
		£50,700			£50,700
Jan. 1	To Balance brought down.	£3,200			

Explain fully the meaning and use of this account. (*Chartered Accountants.*)

38. The Northern Foundry Company, Ltd, are manufacturers of steel castings.
The Company has instituted a system of costing, and you are requested to advise as to the basis on which standing charges and establishment expenses should be charged.
The manufactures of the Company vary greatly, some of the castings

being of considerable size and weight, and others very small but requiring intricate workmanship.

The points you have to deal with are: (1) Foremen's wages, and wages of labourers and others not directly charged; (2) Rent and rates; (3) Travellers' salaries and expenses, and expenses of the forwarding department, (4) General office expenses; (5) Salaries of manager and managing director.

What would you advise? (*Chartered Accountants.*)

39. From the following particulars make out monthly Cost Sheets of a coke and by-product company:—

	April	May.	June
Coal used	6,900 tons	7,200 tons	7,300 tons
Coke made	4,700 tons	4,725 tons	4,775 tons
Tar made	325 tons	340 tons	325 tons
Sulphate of Ammonia made	90 tons	100 tons	95 tons
Sulphuric Acid used	75 tons	95 tons	90 tons
Benzol made	12,300 galls.	13,900 galls.	14,000 galls.
Creosote Oil used	7 tons	8 tons	8 tons
Wages	£550	£560	£565
Stores, etc.	£55	£75	£75

The prices of the above materials and products were: Coal, 8s. per ton; Coke, 14s. 6d. per ton; Tar, 13s 3d. per ton; Sulphate, £10 15s. per ton; Sulphuric Acid, 45s. per ton, Benzol, 3¾d. per gallon; Creosote Oil, 3¼d. per gallon (1 ton = 220 gallons).

Show the percentage (to two places of decimals) of Coke made, of Tar made, and of Sulphate of Ammonia made to the weight of coal used. (*Chartered Accountants.*)

40. When auditing the accounts of a large factory where wages are paid by piece-work, you find on reference to the company's statistical results the following:—

A. Dept.	1st Year	Per cent on Output.	2nd Year	Per cent on Output
Material	10,500	10·50	11,500	11·50
Wages	5,250	5·25	7,250	7·25
Packing	1,050	1·05	1,000	1·00
Supervision ..	525	0·52	500	0·50

What are your conclusions? (*Incorporated Accountants.*)

41. The Engineering Company, Ltd., have works in a suburb of London, the Head Office being in the City, where all orders for the Company's goods are taken. The goods are manufactured at the works, and are invoiced to Head Office at "cost," made up of materials, productive labour, and an agreed rate of 125 % on productive labour to cover "oncost" or overhead charges, viz. 5 % interest on capital employed, depreciation, and all expenses of the works. One-fourth of any surplus on "Oncost Account" is credited to the works manager as extra remuneration, and the remainder is transferred to Head Office as profit. The Balances in the Ledger of the works on January 1st were as follows: Plant and Machinery (depreciation 7½ %), £50,000; Loose Tools (depreciation 15 %), £8,000; Cash in hand, £200; Freehold Land, £5,000; Buildings (depreciation 2 %), £16,000; Stock on hand and Work in progress, £23,800; Head Office, £103,000.

The Head Office pays all accounts and furnishes the works with cash required for wages, etc. The debits to the works for the year were:—

	£
Purchases chargeable to jobs	52,000
Purchases *not* chargeable to jobs	6,000
Cash for Productive Wages	28,000
Cash for Unproductive Wages	5,500
Works Salaries	4,100
Other Works Expenses	6,500
	£102,100

In addition to the amounts mentioned above, the Trial Balance of

the Head Office on December 31st consisted of the following: 5 % First Mortgage Debentures, authorised and issued, £50,000; Ordinary Share Capital, authorised and issued, £100,000; Creditors, £23,850; Goodwill £40,000; Cash at Bankers and in hand, £19,300; General Reserve, £30,000; Profit and Loss Balance from last year, £7,400, Investments, £26,500; Sales, £133,500; Debtors, £36,500, Salaries and Travelling, £3,800; Rent, £1,200; Directors' Fees, £2,000; Other Expenses, £4,600, Debenture Interest of Year, £2,500, Interim Dividend on Ordinary Shares, £5,000; Interest and Dividends on Investments, £1,750.

The works invoices to Head Office for the year amounted to £111,500, and the Stock on hand and Work in progress on December 31st was £27,300.

Show the Works "Oncost Account" for the year, the Balance Sheet of the Company as at December 31st and Profit and Loss Account for the year. Ignore Income Tax. (*Chartered Accountants.*)

42. B. Finney commenced business on January 1st as a bicycle manufacturer, making three standard types of machine, which he designated as G, L, and J. His Trading and Profit and Loss Account for the year is as follows:—

	£	s.	d.			£	s.	d.
To Materials charged out	2,517	0	0	By Sales		6,765	0	0
,, Direct Labour	1,570	17	6	,, Stock of finished machines		261	5	0
,, Works Expenses	1,495	0	0	,, Work in progress on unfinished machines—				
,, Balance down—				Materials	310			
Gross Profit	1,913	7	6	Labour	80			
				Works oncost	80			
						470	0	0
	£7,496	5	0			£7,496	5	0
	£	s.	d.			£	s.	d.
To Office Expenses	1,060	0	0	By Balance		1,913	7	6
,, Balance, net profit	853	7	6					
	£1,913	7	6			£1,913	7	6
				By Balance		£853	7	6

He has kept "Cost Accounts" in respect of each type, charging out materials and labour at actual cost, "Works oncost" at 100 % on labour, and "Office oncost" at 20 % on Works cost. Finished machines in stock and work in progress are valued at "Works cost." From the foregoing information and the following particulars prepare (*a*) Statement showing profit per machine sold and total profit per cost accounts; (*b*) Works Oncost Account; (*c*) Office Oncost Account, (*d*) Reconciliation of Profit per Cost Accounts with the Profit and Loss balance of £853 7s. 6d.

	G.			L.			J.		
	£	s.	d.	£	s.	d.	£	s.	d.
Average cost of materials per finished machine	1	8	0	1	10	0	1	2	0
Average cost of labour per finished machine	0	18	6	1	0	0	0	16	6
Number of finished machines manufactured	845			470			290		
Machines sold	820			450			250		
Sale price per machine	4	10	0	4	15	0	3	15	0

(*Chartered Accountants.*)

43. The Paper Products Company, Ltd, owns: A paper mill, all the output of which is sold to the factory at 10 % above mill cost price, the factory, which sells all its output to the selling department at 10 % above factory cost price; the selling department.

From the following figures calculate (*a*) the factory cost of output, showing the proportion "Paper" bears to "Other Goods, Wages, and Charges"; (*b*) the profit made by the Company in the year, allowing for (*c*) the reserve required to eliminate the unrealised profit on increase in stocks in the year, assuming that the selling department increase is in the same proportions as in (*a*).

Factory: Opening Stock on hand: Paper, £18,700; Other Goods, £14,800; Paper Purchases from Mill, £73,300, Other Goods, Wages, Charges, etc., £43,900; Closing Stock on hand: Paper, £24,200; Other Goods, £13,500.

Selling Department: Opening Stock on hand, £27,400; Sales, £148,000; Wages, Charges, etc., £16,400, Closing Stock on hand, £37,300. (*Chartered Accountants.*)

44. A correspondent of a financial newspaper has suggested that manufacturers engaged in making war material should have their profits fixed by Act of Parliament, and makes the following suggestion for ascertaining the profits on an article, assuming the selling price to be £100:—

	£
Cost of Materials, say	40
Wages, say	18
Cost of Trading and Distributive Expenses, based on past experience, say	20
Balance, being Net Profit	22
	£100

Criticise the method suggested for ascertaining net profit, and make suggestions of your own for ascertaining the real profit of any contract. (*Incorporated Accountants.*)

45. The draft accounts of George Dickson, Ltd., for the year ended December 31 show a net profit of £56,000. The issued capital of the company is £300,000, consisting of 100,000 6 % Cumulative Preference Shares of £1 each, and 200,000 Ordinary Shares of £1 each. The credit balance brought forward from the last Profit and Loss Account amounted to £12,500.

The directors decide to submit the following appropriation to the shareholders: (*a*) To write £5,000 off the Goodwill Account, (*b*) to transfer £10,000 to Reserve Account; (*c*) to transfer £1,000 to Forged Transfers Reserve; (*d*) to redeem twenty 5 % Debentures of £100 each at par; (*e*) to distribute £5,000 as bonus to the staff; (*f*) to pay the dividend due for the year on the Preference capital (less tax). Give the entries necessary to record these appropriations. (*Chartered Accountants.*)

46. Draw up a form of Cost Sheet suitable for a coal-owner or iron and steel manufacturer, detailing the items of expenditure so that a check can be readily placed upon them. (*Chartered Accountants.*)

47. Draw up form of a monthly Cost Sheet for the information of the proprietor of a colliery or chemical works, detailing the items of expenditure so that a comparison may be made with corresponding periods; the form to show the total expenditure since the last Balance Sheet to the date of the return. (*Chartered Accountants.*)

48. Prepare a form of Cost Sheet for a colliery in which will be shown, first, the cost of working the coal; second, the cost after including establishment charges, and state what, in your opinion, should be considered the net cost of the coal. (*Chartered Accountants.*)

49. Give a form of Cost Sheet applicable to a colliery or iron-works, so that such Cost Sheet shall embrace all the working debits and establishment charges. (*Chartered Accountants.*)

50. In well-arranged works where the Cost Sheet is more than usually perfect in its character, can you state the extent of expenditure which such Cost Sheet should embrace? (*Chartered Accountants.*)

51. Prepare a chart showing the output of electricity and coal consumption of an electric lighting company. (*Incorporated Accountants.*)

52. What is a Cost Sheet? How is it made up? Prepare a sample Cost Sheet for a steel-rail rolling mill. (*Chartered Accountants.*)

53. Give a specimen of a Cost Sheet suitable for use in a colliery or in any manufacturing business with which you are acquainted. (*Chartered Accountants.*)

54. Draw up a form of weekly or monthly Cost Sheet adapted to one only of the following industries, and give specimen entries illustrating its working. (*a*) Colliery; (*b*) Cotton-spinning Mill: (*c*) Iron Foundry; (*d*) Brewery. (*Chartered Accountants.*)

55. In order to prepare a Cost Sheet showing the cost of the manufacture of any particular article, what details must be obtained and grouped together in order to arrive at the total cost of the article? Illustrate your answer by an example of a Cost Sheet suitable for use in a manufacturing business with which you are familiar. (*London Chamber Commerce.*)

✓ **56.** A pencil manufacturer makes two types of pencils, "Black" and "Coloured." They undergo two processes, Factory and Finishing Raw Materials used in the Factory and General Expenses are apportioned in the ratio of output of each class; the output in 19 . was 24,000 gross Black and 8,400 gross Coloured; the actual cost of labour for each process is ascertained; "Other Charges" for each process are apportioned in the same ratio as labour for that process; finishing materials are apportioned in the ratio of finishing labour. From the following particulars prepare a statement of the cost per gross, in shillings and pence, of each item and each process in the cost of manufacture, and the profit per gross if the selling prices are £1 and 19s respectively:—Factory Raw Materials. Opening Stock, £3,680, Purchases, £10,710; Closing Stock, £4,940; Factory Wages: Black, £4,200, Coloured, £1,365; Factory Charges, £3,710; Finishing Wages: Black, £2,000; Coloured, £560; Finishing Raw Materials: Opening Stock, £720; Purchases, £3,370, Closing Stock, £890; Finishing Charges, £1,920; General Expenses, £3,645. (*Chartered Accountants.*)

✓ **57.** A, who commenced business on July 1st as a piano manufacturer, places before you the following information, and asks you to prepare a statement showing the profit per piano sold (charging labour and material at actual cost, works oncost at 100 % on labour, and office oncost at 25 % on works cost), and a statement showing a reconciliation between the profit, as shown by the Cost Account, and the profit as shown by the Profit and Loss Account for the year ended June 30th in the following year.

Two grades of pianos are manufactured, and are known as No. 1 and No. 2 There were no pianos in stock or in course of manufacture on June 30.

Average cost of materials per piano: No. 1, £10, No. 2, £8. Average cost of labour per piano: No. 1, £19; No. 2, £14. Finished pianos sold: No. 1, 118; No. 2, 205. Sale price of piano: No 1, £75; No. 2, £55. The works expenses were £5,240, the office expenses were £3,166.

You are required to prepare the necessary statements, showing the actual profit for the year. (*Chartered Accountants.*)

✓ **58.** From the following information prepare Pig Iron Production Account, showing the cost per ton of each class of expenditure and of the pig iron produced:—Sundry Stocks on hand, July 1st: Coal, £4,720, Coke, £3,580; Limestone, £1,450; Ironstone, £3,930; Sundries, £2,700. Purchased during the year: Coal, £21,880; Coke, £29,470, Limestone, £5,080: Ironstone, £18,690; Sundries, £7,810. Sales of Slag, £10,400, General Works Charges, £4,400; Wages, £17,600; Production of Pig Iron, 32,000 tons Stocks on hand, June 30th in the following year. Coal, £3,800; Coke, £2,650, Limestone, £1,730: Ironstone, £3,420; Sundries, £2,910. (*Chartered Accountants.*)

CHAPTER XIV

Bank Accounts

The book-keeping system of a modern bank is a somewhat specialised form of double entry. The majority of a bank's transactions consist of receipts and payments of money, or transfers between personal and impersonal accounts, and their record presents no difficulty. The specialised form of accounting employed by banks arises from the fact that the daily transactions are extremely numerous and must for the most part be dealt with immediately they occur.

A bank is either a borrower or a lender. It is debtor to those customers who entrust money to its keeping, and creditor of those to whom it lends money. To its creditors on Deposit Account a bank pays interest; from its debtors a bank receives interest. The difference between the interest paid by a bank on money borrowed, and that received on money lent, plus what the bank earns on its investments and minus its working expenses, forms the chief part of a bank's profits. In this country, the aggregate *paid-up* capital of banks is small compared with their current liabilities, and it is not primarily from the employment of their capital funds that the greater part of their profit is made; it is from a small rate of net interest or net profit on the large deposits they handle that they pay high dividends on their comparatively small capital funds.

It is most necessary for a bank to know its own general position from day to day with close accuracy. It has always to preserve a sufficient holding of liquid assets in order that it may be in a position to meet every demand made upon it. A general run upon the banks of this country is now hardly conceivable except in the extreme case of a foreign invasion, but the possibility exists and cannot be disregarded

Moreover, in order that a bank may know the position existing between itself and its customers at any moment, its ledgers must be written up abreast of its transactions, otherwise there would be the danger of overdrawn accounts and subsequent bad debts. There is also the vexed question of the pass book. The pass book is the property of the customer; its function as between banker and customer has never been defined, and the precise legal effect of the entries made in it is very uncertain. But clearly it is imperative that the pass book should be accurate, and be written up and ready for the customer whenever asked for. A customer is entitled to assume that the entries in his pass book are correct, and, provided always that he acted *bona fide*, can claim for damages sustained by acting on that assumption. Doubtless, it would be very difficult for a business man to show

that he acted *bona fide* in relying solely on his pass book; but in the old case of *Skyring* v. *Greenwood* (1825), 4 B. & C., where an army officer, on the faith of an erroneous credit entry in the accounts—analogous to the pass book—submitted to him, spent money which otherwise he would not have spent, the bankers failed to recover the amount erroneously credited, and the decision in that case has on several occasions been approved. It is usual for auditors to apply direct to the bank for a certificate of the bank balance and not to rely on the pass book alone.

In order to fulfil the requirements thus briefly indicated, a bank employs a large part of its staff in continuously recording, in Current Account and other books and ledgers, the mass of detail relating to its daily transactions with customers. All its records are interdependent and interlocking, and as a safeguard against fraud each transaction is usually arranged to pass through more than one pair of hands. Internal checks are all the more necessary because the work of a bank is not capable of being checked in every detail, either by an independent auditor, or by the bank's own inspectors; the work involved would be too heavy, so multitudinous are the transactions and so quickly are they at an end.

Before dealing with the main outlines of bank book-keeping it will be of assistance to the student to illustrate and briefly explain a typical bank Balance Sheet, and thus give an outline of the transactions for which an efficient system of accounting must be provided. Taking the Balance Sheet appearing on p. 793, the following explanatory notes may be offered.

Share Capital.—Modern banks, almost without exception, are limited companies, for the reason that all associations of more than ten persons formed to carry on banking business must be registered as companies unless already formed in pursuance of some other Act or under letters patent. Banking companies registered under the Companies Act are under obligation to publish a statement disclosing their financial position before they commence business and thereafter twice yearly (first Monday in February and first Tuesday in August). This statement must be exhibited in a prominent position in the registered office of the bank and at each of its branches. This statement, known as "Form C," must contain the amount of the nominal capital of the company, the number of shares into which it is divided, the number of shares issued, and the amount called up and paid thereon, the liabilities and assets of the company as on the previous January 1st or July 1st. The leading banks usually comply with those regulations by exhibiting a complete Balance Sheet. Like other limited companies, banks are also subject to audit, and the audited Balance Sheet must bear the signatures of the secretary and manager and three directors. In order to prevent attempts to discredit a bank by "bear" sales of its shares *Leeman's Act* directed that all transfers dealing with the sale of bank shares must specify the distinguishing numbers of the shares sold. This is a regulation, however, which is habitually disregarded.

Of the authorised capital of £33,000,000 shown in the Balance Sheet, £30,533,127 has been subscribed and £9,320,157 called and paid up. There is a reserve liability of £3 per share on the un-

THE WESTMINSTER BANK, LIMITED.

BALANCE SHEET. DECEMBER 31, 1930.

LIABILITIES		£	s.	d
Capital—				
Authorised				
7,500,000 Shares of £4 each	£30,000,000			
3,000,000 Shares of £1 each	3,000,000			
Issued				
7,070,990 Shares of £4 each, £1 paid		7,070,990	0	0
2,249,167 Shares of £1 each, fully paid .. .		2,249,167	0	0
		9,320,157	0	0
Reserve		9,320,157	0	0
Current Deposit and other Accounts, including provision for Contingencies ..	£288,821,828 4 7			
Balances in account with Subsidiary Companies	2,757,846 17 8			
		291,579,675	2	3
Notes in circulation in the Isle of Man . .		16,223	0	0
Acceptances, Endorsements and other Engagements on account of Customers		17,814,551	19	6
Profit and Loss Balance, as annexed		1,121,246	6	9
		£329,172,010	8	6

R. E BECKETT, M C TURNER, M N HOGG } *Directors*

CHARLES LIDBURY, *Chief General Manager.*
J R HOOFF, *Chief Accountant*

ASSETS	£ s. d	£	s	d
Coin, Bank Notes and Balances with the Bank of England		35,843,863	17	11
Balances with, and Cheques in course of collection on, other Banks in Great Britain and Ireland .		10,165,706	0	3
Money at call and short notice		25,683,549	18	2
Bills Discounted		48,759,716	10	7
Investments				
War Loan and other Securities of, or guaranteed by, the British Government (of which £1,434,384 3s 9d. is lodged for Public accounts and for the Note Issue in the Isle of Man) ..	49,254,033 9 6			
British Corporation Stocks and other Investments	1,362,061 13 8			
		50,616,095	3	2
Advances to Customers and other Accounts	131,926,823 1 0			
Balances in Account with Subsidiary Companies	23,693 0 7			
		131,950,516	1	7
Liability of Customers for Acceptances, Endorsements, and other Engagements, as per contra .		17,814,551	19	6
Shares in Subsidiary Companies (at cost, *less* amounts written off)				
Westminster Foreign Bank Limited: 8,000 £20 Shares, fully paid; 92,000 £20 Shares, £10 paid } .	1,080,000 0 0			
Ulster Bank Limited: 199,940 £15 Shares, £4 paid	1,911,926 5 0			
Other Subsidiary Companies	35 0 0			
		2,991,961	5	0
Bank and other Premises (at cost, *less* amounts written off)		5,346,019	12	4
		£329,172,010	8	6

AUDITORS' REPORT TO THE MEMBERS OF WESTMINSTER BANK, LTD.

We have examined the above Balance Sheet and compared it with the Books at Lothbury, Lombard Street and Bartholomew Lane, and with the Certified Returns received from the Branches We have verified the Cash in hand and Bills Discounted at Lothbury, Lombard Street and Bartholomew Lane, and the Cash at the Bank of England. We have also verified the Securities held against Money at Call, and Short Notice and the Investments of the Bank We have obtained all the information and explanations we have required, and in our opinion the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs, according to the best of our information and the explanations given to us, and as shown by the Books of the Bank

Auditors TURQUAND, YOUNG & CO. — KEMP, CHATTERIS, NICHOLS, SENDELL & CO. — PRICE, WATERHOUSE & CO. — STEAD, TAYLOR & STEAD } *Chartered Accountants.*

LONDON, 12*th January*, 1931.

called capital. The uncalled capital forms a permanent guarantee fund for the enhancement of the bank's financial stability. In many cases the whole, or a large part, of the uncalled capital can only be called up in the event of liquidation, and is then termed the *Reserve Liability on the Shares.* Where this is the case it affords an additional safeguard for the bank's depositors.

Reserve or Reserve Fund.—This account figures in the Balance Sheets of most banks. As a general rule, it is partly built up by periodical transfers from trading profits and partly by premiums received on the issue of new shares. The reserve fund of a bank is generally invested in Government and other gilt-edged securities, the investments thus held on account of the fund being stated separately on the asset side of the Balance Sheet, apart from the bank's ordinary holding of these investments.

Current and Deposit Accounts.—The total of these two items expresses the bank's liability to its customers, repayable on demand or after a short period of notice. Some few banks show separate totals of their Current and Deposit Account liabilities. In some cases the heading is elaborated to "Current, Deposit, *and other* Accounts." In this form the item may include staff pension funds, secret reserves, and any balances which it is not thought needful to describe with more particular detail. In some cases the item also includes letters of credit, circular notes, and even the balance of the Profit and Loss Account. It will be noted that in the case illustrated the liabilities to customers are nearly sixteen times the amount of the bank's paid-up capital and reserve—a not unusual proportion.

Acceptances on Behalf of Customers—These are bills payable which have been accepted by the bank for its customers, in reliance upon their providing funds wherewith to meet the bills at their due dates. A commission is charged for the accommodation, and, as a general rule, a bank will only accept bills in this way against approved security or for a banking correspondent. The security sometimes takes the form of the shipping and other documents which cover the goods represented by the bills.

This practice is of undoubted convenience to merchants, especially when a remittance of indisputable worth and negotiability is required for foreign liabilities and commitments, or, when the merchant requires immediate money, for the low rate at which a bill thus accepted can be discounted will more than cover the commission paid for the accommodation Customers accommodated in this way are, of course, liable to the bank for these acceptances. Hence the appearance of the item on the asset side of the Balance Sheet also as representing the liability of the customers.

Rebate on Bills not Due.—When a bank discounts a bill for a customer it immediately deducts interest on the face value of the bill, calculated from the day of purchase to the day it falls due; the interest so deducted is called *discount*, and is at once credited to "Discount Account" in daily totals through the "Bills Received for Discount Register." When the bank makes up its periodical Profit and Loss Accounts it is obviously only entitled to take credit for the discount which has accrued to the date of

balancing, the remainder of the discount being carried forward' under the designation of "Rebate on Bills Not Due," for the benefit of the succeeding trading period. In short, the interest earned by discounting bills is apportioned between the two financial periods concerned. This item does not appear separately in the Balance Sheet shown. It has, however, been allowed for in the Profit and Loss Account.

Profit and Loss Account.—This item represents the balance of the Current Profit and Loss Account, and shows the amount available for dividend, etc In some cases short particulars are inset, showing the balance brought from the previous period, the dividends paid thereout, transfers to reserve, etc., and the profit for the current half-year.

Cash.—This comprises the coin and Bank of England notes in hand at the head office and branches and the balance of the bank's own Current Account with the Bank of England. These are obviously two different types of asset, but very few banks show the items separately. For practical purposes money on Current Account with the Bank of England is ranked as the equivalent of coin and notes actually in hand. According to the Macmillan Report (June, 1931), the amount of "cash" thus classed as immediately available is now about 10·8 per cent. of the public liabilities of the banks, of which 4·9 per cent. is represented by Cash with the Bank of England.

It is clear that the balance at the Bank of England usually forms a substantial part of the composite total described as "Cash." Needless to say, adequate balances of coin and notes for current needs are always available at every branch of a bank, and doubtless additional reserves are kept at the Head Office. Banks are not averse, however, from placing the responsibility for their other cash reserves as far as possible on the shoulders of the Bank of England. The united balances of the "other bankers" on Current Account with the Bank of England form an appreciable share of the latter's liabilities to the public, and the increase and decrease of these collective balances at different times is reflected and noted in the weekly statements published by the Bank.

Balances with, and Cheques on, other Banks.—This item constitutes an asset only one degree less liquid than the cash balances dealt with above. Cheques in course of collection on other banks are converted into cash immediately the process of clearing or collecting terminates.

Money at Call and Short Notice.—This asset is made up of loans at interest to bill brokers and stockbrokers from day to day, or for short periods, secured by the deposit of bills, bearer securities, or other easily realisable stocks.

The bill brokers and discount houses—the terms are practically synonymous—are in some cases joint stock companies and in others private firms. These houses carry on the business of buying bills of exchange from the commercial community and from foreign and other banks. Purchases of bills are financed by obtaining loans for short periods from the large banks and kindred firms upon the security of the bills discounted. Borrowings effected in this manner run from day to day, or for a stated number of days,

rarely exceeding a fortnight, and the rate of interest is fixed at the time the loan is obtained.

As the loans fall due they may be, and very frequently are, extended for successive periods under a fresh arrangement. The bill broker frequently disposes of some of the bills he has purchased to the large home and foreign banks whenever the latter are disposed to invest funds in first-class bills. This operation is known as *rediscounting*. The bill broker derives his profit from the difference between the rates at which he discounts bills and the rate he is forced to pay for the short loans to carry them or the rate at which he rediscounts them elsewhere. As a rule a bill broker keeps little or no cash reserve, and meets demands for repayment of his short borrowings out of maturities of his stock of bills, or by rediscounting or borrowing upon them at the Bank of England.

All short loans are covered by the deposit of adequate security (in the form of bills, gilt-edged bearer securities, or short-term bonds) with a small margin (5 to 10 %) as a reserve against possible loss in case realisation becomes necessary. Discount houses usually possess a holding of the two classes of investments named in addition to their main business of dealing in bills of exchange. The other class of short loans appearing in the Balance Sheet of a bank are the loans made to stockbrokers from one fortnightly account day to the next, to enable them to carry over Stock Exchange transactions for their clients from one settlement to another. These loans are covered by Stock Exchange securities (with a margin), and because they are usually somewhat less realisable than the short loans to bill brokers they command a higher rate of interest. The securities deposited to secure these loans have usually been bought by speculators for a rise, the transactions being financed for them by their stockbrokers pledging the securities. Bankers favour bearer securities in this connection as their transfer entails neither trouble nor expense.

Bills Discounted.—These are either :—

(*a*) First-class bills bought from the bill brokers, under discount, as investments for short periods ; or

(*b*) Trade bills discounted by the bank to accommodate its customers.

Banks favour bills as investments because they bear, as a general rule, the signatures of more than one firm and because they convert themselves into money automatically at their due dates with little fear of depreciation.

In cases where the bills have been bought from a bill broker his endorsement on the bill, or his guarantee, provides an additional safeguard from the bank's point of view. *First-class bills* are those which have been accepted, drawn, or endorsed by a bank, or accepting house, of established reputation. The rate officially quoted by the Bank of England for discounting first-class bills is, as the student is probably aware, known as the *Bank Rate*. London enjoyed before the war an unrivalled position as the accepting centre of the world, and in the main still holds this position, and the bills drawn on it represent not only the discharge

of the commercial obligations of this country, but of those of many of the great importing nations of the world. Most of the bills drawn on London eventually find their purchaser in London. The London discount houses buy bills in large quantities from the foreign or colonial branch banks located here, and sell them in turn either to the British banks or to other buyers.

Trade Bills.—These, unless of the first class, or bearing the endorsement of a first-class house, do not form such favoured investments, the element of risk being obviously greater; they are consequently discounted at slightly less favourable rates than first-class bank paper. Trade bills of short date are preferred by bankers for obvious reasons.

The discount houses re-sell, or *re-discount,* their bill purchases as they think fit, either in response to a demand for bills from their banking connections or in order to provide funds to meet the recall of some of the short loans by means of which they finance themselves. British banks as a rule refrain from re-discounting bills purchased.

Investments.—The securities held by banks as investments are almost wholly *British Government Securities,* and are written down to, or even below, the current market quotation at the date of each successive Balance Sheet. It is not the practice of banks to write up their holdings of securities if current quotations show enhanced values. The war and its aftermath severely depressed the value of securities and involved the banks in a great deal of writing down either out of current profits or reserves—secret or open. A partial recovery in quotations has since taken place and the appreciation over the written down values constitutes a form of semi-secret reserve. If any investments of the bank have been lodged as security for national, county, or other public accounts, the amount so lodged should be set out in the form of a note on the face of the Balance Sheet

Advances to Customers—These are the trade and other loans advanced by the bank to its customers. The accommodation is only granted, as a general rule, upon the deposit of approved security. The form of security lodged will naturally vary according to the trade connections of the bank and the locality in which it operates. Speaking broadly, however, any form of good merchantable security is accepted for loan purposes—e.g. stocks and shares, bills, dock warehouse warrants, bills of lading, life policies, mortgages on land and buildings, and personal guarantees; the latter two items, however, not being of a "liquid" nature, are regarded less favourably by bankers.

The rates of interest yielded by the purchase of trade bills and by loans to customers are naturally higher than those derived from the more liquid assets, for the reason that the risk of loss is greater. Although investments of this type are more profitable, it is necessary, because of the larger risk, to restrict them within limits proportionate to the total assets of the bank.

The interest charged by bankers for loan accommodation varies with the security offered, the tendency of the market, and other circumstances. The rate charged is generally about 1 % above the bank rate, with a minimum charge of 4 to 5 %. For

the purpose of recording accrued interest in the books of the bank, slips charging out the interest due are prepared two or four times a year—at the end of June and December, or March, June, September, and December. These slips are credited to "Interest on Loans Account," and debited to the Current Accounts of the customers concerned.

Liability of Customers for Acceptances.—This item is the contra entry for the like total appearing on the other side of the Balance Sheet, and shows the liability of customers to the bank for the bills it has accepted on their responsibility. The liability of the bank for guarantees given on behalf of customers is often grouped with this item in the Balance Sheet.

Needless to say, a bank will not accept bills for its customer without adequate security, and if the customer should fail to place his account in funds to meet the bill at maturity, realisation of the security will ordinarily follow. A portion of these acceptances will be drawn by foreign banks, as a rule, in anticipation of exchange operations; these may or may not be covered wholly by security specially hypothecated.

The granting of authority by a bank or accepting house to draw bills upon it is known technically as a *credit*. Credits are usually available for a limited time only, and are subject to the fulfilment of the conditions specified on the face of the credit. If they are issued on behalf of a customer to effect payment for goods imported it is usually a condition that the bills of lading relating to the goods drawn for shall be attached to the bill of exchange and surrendered upon its acceptance by the bank. The bills of lading then form part of the banks security *vis à vis* its own customer, and can be liberated to him, either on his simple undertaking to meet the bill, if his credit be sufficiently good, or against the deposit by him of cash or some other sound form of security.

Bank Premises.—This item usually covers the cost of the land and bank buildings. These are largely freehold, and are frequently written down to far below their cost and their realisable value. This forms one of the types of secret reserves frequently met with in Bank Accounts. Many banks write off the entire cost of furniture and fitting against revenue, no Asset Account under this heading appearing in the books or accounts.

The proportionate amounts of cash, short loans and first-class securities held by a bank are of great importance. It is very usual to find an amount equal, roughly, to very nearly 50 per cent. of its liabilities in these three most liquid assets, and the cash in hand and at the Bank of England may amount, as already stated, to between 10 and 11 per cent. of the liabilities. Minor differences in this relation exist between different banks according to the nature of their business and connections, but any serious divergence from the general average at any time renders a bank subject to criticism, to which from the very nature of its business it is particularly sensitive. The student will find a wealth of information regarding the working of our banking system in the Report issued by the Committee presided over by Lord Macmillan, published in June 1931 by His Majesty's Stationery Office at 5s. net (Cmd. 3897). In that

Report the practice of "window-dressing" by the great Joint Stock Banks is condemned It is there pointed out that in order to make a good showing of "Cash with the Bank of England" it is the practice of most of the clearing banks to call in their loans to the money market (only to return them next morning) in order that their end monthly figures may show a high proportion of cash with the Bank. This proceeding is accentuated at the end of each half year, particularly at December 31st. The Report points out that the *average* balances kept by the clearing banks with the Bank of England are much less than the 4·9 per cent. mentioned on p. 795, being, in reality, "less than 3·5 per cent. of their deposits (perhaps not more than 3 per cent) and those of the banks of the country as a whole less than 3 per cent." Still, as the author remarked in the fourth edition of this treatise, "The suggestion that 'window-dressing' takes place for Balance Sheet purposes is not unknown, but if anything of the kind is done its ultimate effect is very small"

Having considered, in general terms, the composition of a Bank Balance Sheet, the manner in which the books that lead up to that statement are kept, and an outline of the general principles of bank accounting may now be given. It must be predicated that there is no standardised system of book-keeping common to all banks; indeed, most banking houses employ special methods in one or more directions which are peculiar to themselves. It is not possible, moreover, within the limits of a single chapter, to exhaustively describe all the detailed ramifications of bank accounting. The field is so large that full knowledge of it can only be acquired by practical work in a banking house. The object of this chapter is to give the student an outline of the principles upon which all bank accounting is based.

The General Ledger.

The book-keeping of a bank, or of a branch bank, is centred in a key ledger, known as the *General Ledger*. This ledger has special significance. In a large bank it contains some twenty or thirty adjustment accounts, recording, in totals, the whole of the bank's assets, liabilities, profits and losses, and their respective fluctuations day by day. The ledger is usually self-balancing, i.e. it is so arranged that a trial balance extracted from it shows debit and credit totals of the same amount, and also at a glance each day the approximate financial position. Numerous subsidiary ledgers and registers are kept for the purpose of recording the bank's assets and liabilities in detail; and these subsidiary ledgers agree with, and furnish the detailed explanation of, the relative adjustment, or "total," accounts opened for each type of asset and liability in the General Ledger.

In a small bank or a branch office of medium size, some of the less active accounts are recorded in full detail in order to avoid the use of subsidiary registers. The accounts for commission, interest, expenses, and so forth are not, in a small office, sufficiently heavy to justify the employment of a separate subsidiary register or ledger, and for this reason these and similar accounts frequently appear *in extenso* in the General Ledger itself. The larger the

GENERAL LEDGER ACCOUNTS.

Liabilities.		Assets	
General Ledger Account.	Subsidiary Register or Ledger.	General Ledger Account.	Subsidiary Register or Ledger.
Share Capital. Reserve Current Accounts Deposit Accounts. Bills Payable (or Acceptances for Customers). Endorsements and Guarantees. Branches. Interest. Commission. Sundry Profits. *Profit and Loss Account.* *Rebate on Bills Discounted.*	*Share Registers* Current Account Ledgers Deposit Account Ledgers Acceptance Registers and Diaries Registers and Diaries Branches Ledgers These accounts are sometimes kept in detail in the General Ledger and sometimes in a subsidiary Profit and Loss Ledger If the latter ledger is kept, the relative General Ledger Account replaces the individual accounts of profit and loss	Cash Bank of England Banking Correspondents. Short Loans Investments Bills Discounted *Loans to Customers.* Bank Premises Customers' Liability for Acceptances Customers' Liability for Endorsements and Guarantees. General Expenses.	Cashiers' Money Books Bank of England Books. Correspondents Ledger. *Short Loans Ledgers.* Investments Ledgers Bill Registers and Diaries. Customers' Loans Ledgers. Premises Ledger Acceptance Ledgers or Registers. Endorsements and Guarantees Ledgers or Registers. *See Notes against Profit Accounts*

GENERAL LEDGER.

Current Accounts

Date.	Dr.			Cr.			Balance.					
							Dr			Cr		
	£	s	d.	£	s.	d.	£	s	d.	£	s	d.
19.. Dec 31				180,402,611	17	6				180 402,611	17	6
19 Jan 1	4,625,279	16	2	5,514,211	12	6				181,291,543	13	10
" 2	5,257,162	14	8	6,039,212	14	8				182,073,593	13	10
" 3	8,110,302	14	9	10,051,216	14	3				184,014,507	13	4
" 3	184,014,507	13	4									
	£202,007,252	18	11	202,007,252	18	11						
19... Jan. 3				184,014,507	13	4				184,014,507	13	4

Note—The Current Accounts Ledgers Adjustment Account shown above has been closed and balanced as on January 3rd for purposes of illustration; in actual practice the accounts in the General Ledger are ruled off at periodical intervals, e g. monthly or half-yearly

bank the less is the amount of detail recorded in the General Ledger, a greater number of subsidiary ledgers being employed.

The daily entries in each account in the General Ledger are made in the form of totals. These totals are constructed by grouping together the mass of detail entries arising out of the day's work affecting that particular account on either side, e.g. all deposits made for the credit of current account customers are collected into one sum, which is credited to the Current Accounts Account in the General Ledger. Withdrawals by customers are treated similarly and are debited, in total, to the same account. Whether the detail entries in the bank's ledgers are posted from slips, in the method hereafter explained, or from journals, the daily entries affecting each group of ledgers must necessarily be collected into totals on either side for General Ledger purposes at the end of each day. The process of grouping numerous items of a like nature into totals is already familiar to the student as common to the preparation of all adjustment accounts

The numerous subsidiary ledgers, journals, cash books, and registers employed to record details are kept abreast of the work throughout each day by means of continuous posting, in order to show at any moment the respective positions of the bank and its customers in their mutual dealings. The balances of any subsidiary ledger, or group of such ledgers, if extracted at the close of each day's business, will agree, in total, with the balance of the corresponding General Ledger Account. For example, a bank may employ thirty or more Current Account Ledgers sectionised according to the letters of the alphabet, or otherwise, and conveniently grouped for posting purposes; the balances of which, if extracted and combined in one grand total at the close of any particular day, will equal and explain the balance shown at the same point of time in the Current Accounts Account in the General Ledger.

A list of accounts usually found in a home bank's General Ledger, is given on p 800, together with a list of some of the subsidiary ledgers and registers, by means of which they are explained.

General Ledger Accounts.

It will be seen that the accounts in the General Ledger are neither numerous nor complex. The form of the ledger itself is equally simple. Since all, or nearly all, the accounts in it are adjustment accounts, it follows that little or no detail need be shown, the only information for which columns are provided being (*a*) the date, (*b*) debit and credit postings, and (*c*) balance. The form of the General Ledger is given at p 800, the account illustrated being that which shows the total liability on current accounts of the bank.

Besides the General Ledger referred to above, there is another book, or rather register, to which the same name is frequently applied. When a bank possesses branches, a separate, self-balancing memorandum ledger is commonly kept by the chief accountant at the head office in order to show the combined

position of the bank and all its branches. This ledger is a book quite apart from the ordinary head office and branch systems of book-keeping, and the titles *General Ledger*, or *General Summary Book*, are frequently used to express its function A general summary book of this type is written up at periodical intervals from the General Ledger trial balances of the head office and branches; its form varies, but its object remains the same, viz. the presentation of the bank's financial position as a whole. It is from this source that the combined Balance Sheet of the bank and its branches is prepared. The term General Ledger as used hereafter refers to the key ledger kept by each bank or branch bank for its own individual requirements.

The following is a specimen General Ledger trial balance, together with the Balance Sheet and Profit and Loss Account of a bank possessing no branches.

THE COSMOPOLITAN BANK, LIMITED.

GENERAL LEDGER TRIAL BALANCE, DECEMBER 31, 19..

	Dr. £	s.	d.	Cr. £	s.	d.
Share Capital, 1,000,000 shares of £10 each, £1 paid				1,000,000	0	0
Reserve Fund, invested in 5 % War Loan				500,000	0	0
Current Accounts				15,122,111	14	9
Deposit Accounts				3,460,116	2	2
Acceptances for Customers				771,411	13	6
Endorsements and Guarantees				37,010	0	0
Cash	113,268	19	5			
Bank of England	1,006,049	13	2			
Foreign Correspondents	100,219	14	6			
Short Loans	3,241,028	9	2			
Investments	4,441,265	14	8			
Investments on account of Reserve Fund, 5 % War Loan 1929/47 £555,555 11s. 1d Stock at 90 ..	500,000	0	0			
Bills Discounted	3,114,122	19	3			
Loans and Advances to Customers ..	7,728,354	13	0			
Bank Premises	126,890	14	9			
Customers' liability for acceptances ..	771,411	13	6			
Endorsements and Guarantees per contra	37,010	0	0			
*Interest received				266,135	11	3
*Commission				22,126	19	8
*Discount				121,884	16	9
Profit and Loss Account, Balance brought forward				114,668	17	9
Interest paid	80,261	16	2			
General Expenses	91,212	14	9			
*Bad Debts written off	64,368	13	6			
	£21,415,465	15	10	£21,415,465	15	10

NOTES.—Reserve £32,184 6s. 9d. for rebate on bills discounted The Profit and Loss Account balance is the balance left on that account after the payment of a dividend amounting to £100,000 on February 3, 19... It is not deemed desirable in the interests of the Bank to make public the totals of those Revenue Accounts marked *.

THE COSMOPOLITAN BANK, LIMITED.

BALANCE SHEET, DECEMBER 31, 19...

LIABILITIES		£	s	d.
Share Capital issued— 1,000,000 Shares of £10 each upon each of which £1 per share has been paid ..		1,000,000	0	0
Reserve Fund invested in 5 % War Loan as per contra		500,000	0	0
Current and Deposit Accounts		18,582,227	16	11
Acceptances on behalf of Customers as per contra		771,411	13	6
Rebate on Bills not due		32,184	6	9
Profit and Loss Account—				
Balance brought forward from last year	£214,668 17 9			
Less dividend of 10 % paid February 3, 19..	100,000 0 0			
	£114,668 17 9			
Add net profit for the year 19..	142,119 16 6			
		256,788	14	3
	£	21,142,612	11	5

ASSETS	£	s.	d.
Cash in hand and at the Bank of England	1,119,318	12	7
Money at call and short notice	3,241,028	9	2
British Government and other securities ..	4,441,265	14	8
Investments held on Account of Reserve Fund as per contra— £555,555 11s 1d 5 % War Stock 1929/47 at 90	500,000	0	0
Bills Discounted	3,114,122	19	3
Loans and Advances to Customers	7,728,354	13	0
Acceptances on behalf of Customers as per contra	771,411	13	6
Foreign Correspondents	100,219	14	6
Bank Premises	126,890	14	9
£	21,142,612	11	5

Contingent liability for endorsements and guarantees, £37,010.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19..

DR.

19...		£	s	d
Dec 31	To Interest allowed to Customers	80,261	16	2
" "	" Salaries and General Expenses	91,212	14	9
" "	" Dividend paid February 3, 19..	100,000	0	0
" "	" Rebate on Bills not due	32,184	6	9
" "	" Balance carried down	256,788	14	3
		£560,447	11	11

CR.

19..		£	s.	d.
Jan 1	By Profit brought forward as on December 31, 19 ..	214,668	17	9
Dec. 31	" Gross Profit for the year ending December 31, 19.., after making provision for Bad and Doubtful Debts	345,778	14	2
		£560,447	11	11
19... Dec 31	By Balance brought down	256,788	14	3

We have ascertained the correctness of the Cash Balances and of the Money at Call and Short Notice, as entered in the above Balance Sheet, and have inspected the securities representing the investments of the Bank, and found them in order We have also examined the Balance Sheet in detail with the Bank's books We report that, in our opinion, such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs according to the best of our information and the explanations given us and as shown by the books of the Bank We have obtained all the information and explanations which we have required.

ABEL COUNTER & Co,
Chartered Accountants.

GENERAL CASH BOOK.

Cr.	Details. £	s.	d.	Folio	Total. £	s.	d.		Details £	s	d.	Folio	Total. £	s.	d. Dr.
To Current Accounts, paid in ..					199,261	14	8	By Current Accounts, cheques paid					84,321	6	0
,, Branches					11,926	12	4	,, Branches, payments made ..					1,004	12	2
,, Bank of England, withdrawals					10,000	0	0	,, Bank of England, paid in ..					101,119	11	1
,, Bills Discounted, per Diaries .					65,050	10	0	,, *Customers' Loans made*					*500*	*0*	*0*
,, Customers' Loans paid off ..					1.000	0	0	,, Deposit Receipts, withdrawals					250	0	0
,, Deposit Accounts, paid in ..					8.050	0	0	,, Short Loans made					150,000	0	0
,, Short Loans recalled..					25,000	0	0	,, Acceptances, bills accepted ..					80.000	0	0
,, Bills Payable, bills accepted ..					80,000	0	0	,, Bills Payable, acceptances due					100,000	0	0
,, Acceptances, acceptances due..					100.000	0	0	,, Interest Paid					4	7	1
,, Cheque Stamps					1	15	0	,, General Expenses					113	2	2
,, Interest Received, *on Discounts*	*605*	14	8												
,, Interest Received, on Loans ..	102	9	3		708	3	11	Total					517,312	18	6
,, Commissions					110	0	0	Cash Balance carried to succeeding *day*					18,810	9	7
Total					501,108	15	11								
Cash balance brought from previous day					35,014	12	2								
				£	536,123	8	1					£	536,123	8	1

The General Ledger of a bank is posted from a classified general summary of the day's transactions, and this summary is constructed by grouping together, on appropriate sides, the total entries for the day appearing in all the cash books, journals, and other books of original entry in use in the bank.

The book containing this compilation is known as the *Day Book, Daily Summary*, or *General Cash Book*. It is, in effect, a summarised cash account for the day, through which, for convenience in posting, all journal entries have also been passed. It is thus hybrid in its nature when viewed from the standpoint of ordinary commercial book-keeping. All debit entries appearing in a daily summary of this kind are posted to the credit of the various accounts they affect in the General Ledger and *vice versa*. The balances in the hands of the cashiers at the beginning and the close of the day's business are included on the debit and credit sides, respectively.

It is also usual to keep a cash account in the General Ledger, to which the total of the entries (excluding balances) on the debit side of the General Cash Book are debited and the total credit entries are credited; in this particular the Daily Summary Book assumes the character of a journal

The daily summary is also found in a form in which, as compared with that already explained, the sides are reversed. In this case the debit entries in the daily summary are posted to the debit of the General Ledger and *vice versa*, and the cash balances with which the day has begun and ended are brought in respectively on the credit and debit sides of the summary in order to make the two sides agree. When the posting assumes this form the summary resembles a journal, although it is, in substance, a General Cash Book with the sides reversed.

A modification of this latter form is also found, in which the daily summary is a comprehensive journal entry recording the day's transactions but excluding the commencing and concluding cash balances. In this case, the total receipts for the day are brought into the debit in the daily summary, and are also credited to the customers and other accounts on the opposite side; postings to the General Ledger being effected accordingly, similarly, the total payments are brought in on the credit side of the summary as a credit to the cash account in addition to being debited to the customers' and the other accounts on the opposite side. But however the transactions of a bank are collected and grouped, for general ledger posting the general principle is the same, viz. that all the transactions for each day are conveniently marshalled in one classified summary from which the General Ledger is written up.

An example of a daily summary of the kind first explained appears at p. 804. It is constructed, as has been indicated already, by focusing into one statement all the transactions of the bank for the day. The entries of which it is composed are found for the most part in the form of totals in the numerous sectional cash books employed, and also in journals so far as these books are made use of.

The methods employed by banks in recording their detail transactions are characterised by much sub-division of labour, more particularly in connection with the current accounts It is a cardinal principle of bank organisation that, for safety, each transaction shall pass through more than one pair of hands. The section of the staff engaged in posting the ledgers is rigidly divided from the section engaged in paying and receiving money over the counter. In the larger banks the cashiers themselves are divided into two sections, viz. receiving and paying cashiers. The receiving cashiers are checked by the work of the analysis clerks, called waste book clerks, seated immediately behind them. The pass books should be written up from the original paying-in slips, and paid cheques and slips for payments out by another independent section of clerks, whose work thus automatically checks, and is checked by, the ledger accounts, which are written up by independent ledger clerks from the same materials. The agreement of the daily summary, constructed as it is from totals collected throughout the office, serves as a general check, and necessitates the agreement of the balances in the hands of the cashiers at the close of each day. The General Ledger itself furnishes a check upon the accuracy of the total of the current account ledger balances, and of all the other sections of the bank's work as condensed into totals in the accounts which it contains. For example, the totals of such items as investments, bills, loans, and advances, as shown by the detailed registers, in which they are recorded, must agree with the relative General Ledger accounts

In addition to these methods of internal check, the clerks employed in keeping the ledgers of a bank are interchanged periodically without warning, and the ledger balances are extracted at uncertain intervals by clerks other than those who have posted the ledgers.

The Slip System of Ledger Posting.

The greater part of the detail book-keeping of a bank is effected in its subsidiary ledgers by the method known as slip-posting.

The simplest, and at the same time the most numerous, form of posting slip encountered in a bank is the familiar paid cheque. A very brief consideration of the entries necessitated by the payment of a cheque will serve to explain how the method of posting ledgers from slips, instead of from ordinary bound books, arose, and why it has now been universally adopted.

When the paying cashier pays a customer's cheque over the counter, he must enter the payment in his cash book The student has already seen that the cash books kept by the cashiers of a bank are, for the most part, sectional, or subsidiary cash books, and that their totals are aggregated at the end of each day in the daily summary, and find their way in due course to the credit side of the cash account in the General Ledger of the bank. This disposes of the credit entry.

It will be clear that the compensating posting for the double

entry will be effected when the item has been posted to the debit of the customer's ledger account. In ordinary commercial book-keeping, this would be done by posting from the paying cashier's cash book, but the insistent need that the bank should know the continuous state of its customers' accounts makes this ordinary mercantile method impracticable. The difficulty is solved by handing to the ledger keeper the paid cheque for posting purposes. Posting direct from the paid cheques bearing customers' signatures diminishes the likelihood of their being charged to the wrong account, and the ledger accounts compiled in this manner furnish an excellent check upon the accuracy of the paying cashier's cash books.

The other side of the customer's ledger account is written up directly from the original paying-in slips, which are handed to the current account ledger keepers, after the analysis (or waste book) clerks have entered them in their registers, and the receiving cashiers have recorded them in their counter received cash books. Posting direct from paying in slips involves crediting the customer with his payments prior to their actual collection. If the deposit, or any item of it, is subsequently dishonoured, a debit slip is made out and posted to the debit of the customer's account to correct the original credit entry.

Customers' cheques and paying-in slips form by far the larger part of a bank's detail entries, but many other transactions arise in the day's work, mainly those which, in a mercantile business, would pass through the journal. Such entries, for instance, as are necessary to record bills discounted, or coupons collected for customers; the cost of cheque books supplied to them; loans advanced, or unpaid interest charges; transfers between current and deposit accounts; credit items returned unpaid; and so on. Slips for entries of this kind are made out by the bank staff, and it is generally necessary to make out two posting slips, i.e. debit and credit for each entry. The departmental memorandum books, registers, or journals kept to record the special business dealt with in the various departments will furnish the necessary information for the separate debit or credit slips, and in order to complete the double entry for each class of transaction, credit or debit slips must be passed at the end of the day's work for the totals of the individual entries so made; e.g. if stamped cheque books of fifty cheques each, for which a charge of 8s. 4d. is made, are supplied to ten customers during the day, ten separate debit slips, each for 8s. 4d., will be made out and passed forward to the ledger keepers for posting to the debit of the customers' accounts, at the end of the day a single credit slip, for £4 3s. 4d., will be made out for the credit of "stamps on cheques" account, and this slip will be handed for posting, to the clerk responsible for that account, in the nominal ledger.

For isolated entries, such, for example, as a transfer from current to deposit account, two posting slips must be prepared, one to debit the current account of the customer, and the other to credit his deposit account.

All the entries made from slips prepared by the bank itself must be included in the form of classified totals in the General Ledger daily summary, or General Cash Book, at the end of the day. The totals of the slips can be obtained, in most cases, from the departmental registers from which they were prepared. If the information is not available from these sources, the entries must be suitably analysed in accordance with the various ledgers affected by them

The following forms of debit and credit slips illustrate the explanations given above.

L. B. Co., Ltd	LOTHBURY BANKING COMPANY, LIMITED.		
			August 10, 19...
	DEBIT.	*J. Rowe, Current Account for transfer to Deposit Account*	£100 0 0
			L. C. C., Accountant.

L. B. Co., Ltd.	LOTHBURY BANKING COMPANY, LIMITED.		
			August 10, 19...
	CREDIT.	*J. Rowe, Deposit Account for transfer from Current Account*	£100 0 0
			L. C. C., Accountant.

The ledgers employed by a bank are usually specially designed and ruled, whereas those employed in a mercantile house are generally of the ordinary type with the debit and credit money columns upon opposite halves of the page or folio, no special column being included to record the daily balance of the account.

In a bank, it is customary in the case of the current account ledgers to place the debit and credit money columns side by side, only one space being provided in which to narrate the transactions. This space is used indifferently for details of both debit and credit postings, which follow one another down the page in order of date. An additional column is provided on the right of the credit column to show the daily balance of the account. In some cases two balance columns are provided for debit and credit balances respectively; if only one balance column is employed the debit balances are entered in red ink and the credit balances in black ink. In the case of current, deposit, or other accounts, which bear interest upon their daily balances, additional columns are provided in which to enter the interest accrued. The allowance

of interest is made continuously by multiplying each daily balance by the number of days during which it remains unchanged, and by adding together the products thus arrived at. At the end of any given period the sum of the products is multiplied by the rate of interest allowed and divided by 36,500 (or 36,000 in the case of continental banks), and the result is the amount of interest to be debited or credited for the period. If the rate of interest changes from time to time, as is the case in this country, the products to the date of each change of rate must be converted into money, and the amount of interest so obtained to that date must be carried forward in memorandum columns provided in the ruling, pending the ultimate crediting of the total interest at the close of the period In actual practice the products obtained by multiplying together the daily balance and the number of days for which it has remained unchanged, are converted into sterling by means of interest tables. At pp. 810–11 will be found various forms of rulings employed for the current accounts ledgers of a bank.

The ordinary form of Current Account Ledger without interest columns can be, and frequently is, used to accommodate accounts other than customers' current accounts, in some banks all the ledgers are of this form with the exception of the few special ledgers requiring more elaborate rulings

In the case of loans granted, either to bill brokers and stock brokers against readily realisable security, or less liquid trade advances to its customers generally, extra columns are added to the ordinary bank ledger ruling, to contain particulars of the security lodged.

Method of Recording Receipts and Payments.

Each receiving cashier is provided with a Received Counter Cash Book ruled as illustrated below. This book is written up continuously as the deposits are received.

RECEIVED (COUNTER) CASH BOOK.

Money.			Notes.	Name.	Total of Credit.		
£	s	d.			£	s.	d.
160	10	6	£50 10/5 327628/37	Child Bros.	210	10	6
15	0	0		Moore & Co.	115	0	0

NOTE—The first entry represents a payment in of £210 10s. 6d (£160 10s. 6d. coin and £50 in notes). The second entry represents a payment in of £115 (£15 in coin and £100 in cheques); it will be noticed that the cheques received are included in the total column but are not stated separately in this book.

The receiving cashier places all the coin in his till, any bank-

CURRENT ACCOUNT LEDGER (WITH INTEREST COLUMNS).

MESSRS. BANQUEROS HERMANOS, MALAGA.

Date.		Particulars.		Debit.			Credit.			Balance			Days	Product	Rate.	Dr. Interest			Cr. Interest.		
19 ..		Cheque No.	Payee.	£	s	d	£	s.	d	£	s	d				£	s	d	£	s.	d
Dec	31	By Balance					2,222	5	6	2,222	5	6	1	2222							
19...																					
Jan.	1	,, Cash ..					86	10	0												
,,	1	,, Cash ..					3	6	3												
,,	1	To 40008	Wilson Jones	28	8	0															
,,	1	,, 40007	R. Hays	11	6	6															
,,	1	,, 40009	C. Paiba	30	0	0				2,242	7	3	3	6726							
,,	4	,, 40012	Istitute X Y.	1	13	0															
,,	4	,, 40010	Mayfair Club	10	10	0				2,230	4	3	1	2230							
,,	5	,, 40011	Brandt & Co.	4	17	10				2,225	6	5	1	2225							
,,	6	,, 40014	Dr. Wright	3	3	0				2,222	3	5	1	2222							
,,	7	,, 40065	Guardian Insurance.	38	14	9															
,,	7	,, 40016	Selves	7	0	0				2,176	8	8	5	10880							
,,	12	,, 40013	Horace James, Ltd. .	4	4	0				2,172	4	8	1	2172							
,,	13	,, 40017	Meares Bros.	1	3	3				2,171	1	5	1	2171							
,,	14	,, 40001	Selves	8	0	0				2,163	1	5	4	8652							
,,	18	By Interest date					2	14	1					39500	2½				2	14	1
,,	18	To 40018	Selves	2,165	15	6															
			£	2,314	15	10	2,314	15	10												

CURRENT ACCOUNT LEDGER (Without Interest Columns).

Charles Hawkes, 1312 Browndean Road, W.C.

Date	Details: Cheque No	Details: Payee	Dr. £	Dr. s.	Dr. d.	Cr. £	Cr. s.	Cr. d.	Balance £	Balance s.	Balance d.
19. . Dec 31	By Balance					111	14	6	111	14	6
19 . Jan 1	„ Cash					24	2	6			
„ 1	„ Dividend on India Stock					0	15	0	136	12	0
„ 1	To 12461	Bray	2	4	0						
„ 1	„ 12462	Wilding	11	6	0				123	2	0
„ 2	„ 12464	Self	5	0	0				118	2	0
„ 3	„ 12463	Commercial Union	1	2	2				116	19	10
„ 4	By Cash					2	2	2	119	2	0
„ 5	To 12465	Collieries, Ltd.	10	0	0				109	2	0
„ 8	„ 12466	Pepys & Co	34	9	6				74	12	6
„ 9	„ 12467	Self	10	0	0				64	12	6
„ 10	„ 12468	Maitland	17	18	10				46	13	8
„ 10	„ Balance		46	13	8						
			£138	14	2	£138	14	2			
19. . Jan 10	By Balance					46	13	8	46	13	8

Note —In the above example the account is shown as having been closed and balanced on January 10th; in practice it is usual to rule off the accounts and bring down the balances at half-yearly intervals only

LOANS LEDGER.

Charles Melville, 1888 Upper James's Street, S.W.

Date	Dr. Loan Made. £	s	d	Cr. Loan Repaid. £	s	d	Balance. £	s	d	Interest: Days	Product	Rate	£	s	d.	Particulars of Security Held	Value of Security £	s	d.	Disposition of Security and Remarks
19. . . Jan 1	1,000	0	0				1,000	0	0	56	56,000	5	7	13	5	£1,000 Japanese Government 4½ % 1st series	1,010	0	0	Transferred to securities held for safe custody on repayment of loan
Feb. 26				1,000	0	0										£500 Brazil 5 % Fdg.	430	0	0	

RECEIVED DAY BOOK (Waste Book).

Name.	Total Amount £	s	d	Details. Town Clearing £	s	d	Metropolitan Clearing £	s	d	Walks £	s	d	Bank and Country Notes £	s.	d.	Bank of England £	s.	d.	House (own) and Country Cheques. £	s	d	Money £	s	d.
Child Bros	210	10	6										50	0	0							160	10	6
Moore & Co.	115	0	0	10	0	0	20	0	0	10	0	0				30	0	0	30	0	0	15	0	0

NOTE —The entries given above correspond to those given in the Received Cash Book The £100 in cheques paid in by Moore & Co has been analysed according to the Bankers upon whom the cheques were drawn, viz £10 Town Clearing, £20 Metropolitan, £10 Walks, £30 Bank of England cheques, and £30 country cheques In some forms of Waste Book the money and bank-notes entered *on the paying-in slips are not recorded*, the book *being restricted* in its use to the cheques paid in. The Waste Book is by some regarded as the successor of the Goldsmith's Book used in the earlier days of banking

BANK OF ENGLAND BOOK (Also called Goldsmith's Book).

Date	Details	Paid in: Gold £	s	d	Notes £	s.	d	Post Bills £	s	d.	Bank of England Cheques £	s	d.	Folio.	Total £	s	d.	Withdrawn: Details.	Folio.	Total £	s	d
19. . June 5	Receiving Cashiers .				1,500	0	0	25	0	0	100	0	0		1,625	0	0	Notes		100	0	0
„ 5	Clearing							10	0	0	1,000	0	0		1,010	0	0	Gold		1,000	0	0
																		Silver		50	0	0
					1,500	0	0	35	0	0	1,100	0	0		2,635	0	0			1,150	0	0

PAYING CASHIER'S COUNTER CASH BOOK (Supplementary Paid Cash Book).

Total £	s.	d	Name.	Numbers of Bank-notes	Amount of Notes. £	s	d	Money. £	s	d.
35	0	0	C Wrayson	22621/3 3/5	15	0	0	20	0	0
5	0	0	W. Higgins					5	0	0
10	0	0	C Meyer	13298 1/10	10	0	0			

notes or cheques paid in are attached to the paying-in slip, which is at once passed on by the cashier to a waste book clerk seated immediately behind him. The waste book clerk is provided with an analysis book, known as a Waste Book, or Received Day Book, containing columns for the different forms of notes and cheques paid in, analysed according to the manner in which they will be collected by the bank. All cheques and bank-notes are recorded and classified in the Received Day Book before they are handed over to the departments whose duty it is to encash them. The form of Received Day Book is shown opposite.

After entry in the Received Day Book, the customer's paying-in slip parts company with the effects, the slip itself passing direct to the ledger keeper for posting The notes are handed to special clerks to list and pay into the bank's account with the Bank of England, and the cheques are passed on to the clearing departments for presentation at the Bankers' Clearing House if drawn upon clearing banks, or to the banks upon which they are drawn.

Bank of England notes are not usually re-issued to the public, but are paid into the receiving bank's account with the Bank of England and there cancelled. Cheques payable at the Bank of England and Bank Post Bills are similarly paid into the Bank. The register recording these payments and the withdrawals from the Bank is called the Bank of England Book, or the Goldsmith's Book. The form of this book is as given opposite.

At the head office of a London bank the cheques paid in pass from the waste book clerk to the various departments, set out hereunder, and are recorded in the respective departmental registers. The Bank of England presents the cheques it holds on the other clearing banks at the clearing house, but does not discharge cheques drawn on itself in that way. This practice is expressed in the phrase that the Bank of England "clears" on one side only.

(a) *Town cheques* pass to the town clearing clerks for listing and totalling in their town out-clearing books and afterwards to the Clearing House for settlement. These cheques are marked "T" in the bottom left-hand corner, and if received at the head office before 3 o'clock are cleared on the same day.

(b) *Metropolitan and country clearing cheques* pass to the metropolitan and country clearings at the Bankers' Clearing House. These cheques are marked "M" and "C" respectively and represent cheques on branches of the clearing bankers situate in the metropolitan area, or included in the (England and Wales) country clearing.

(c) *House cheques*, i.e. cheques drawn on other accounts in the bank itself are debited to the drawer's current account.

(d) *Branch cheques*, i.e. cheques drawn upon branches of the bank are debited to the particular branch concerned.

(e) *Walks cheques*, i.e. cash articles, postal and money orders and cheques drawn upon banks, which are not included in the clearing or which do not come under any of the

previous headings, such as the London branches of Scots and foreign banks. These cheques, etc., are presented for payment by clerks specially employed for that duty.

(*f*) *Post cheques*, i.e. cheques similar to "walks cheques" but drawn on banks outside the London area are presented and paid through the post. Cheques drawn on Scotland and Ireland are collected through the post, as no international clearing system has yet been established. A charge of about 1s. per cent. is usually made on these cheques for the trouble involved and to cover the cost of remitting payment to London.

In the case of branch banks the treatment of cheques paid in by customers follows similar lines. Local clearing houses exist in some of the larger provincial towns, and cheques included within their limits are presented there; cheques drawn on other places are, in most cases, either sent to London for collection or are presented through the post.

Cheques drawn on the bank by customers may be presented for payment in one of three ways:—

(*a*) Over the counter for payment in cash.
(*b*) By another banker through the clearing house—these cheques form the *in-clearing* for the day.
(*c*) By being paid into another customer's account at the bank or at one of its branches.

In case (*a*) the paying cashier records the payment of the cheque in his Supplementary Paid Cash Book. The cheque is also passed through the Paid Cash Book. The rulings of these books are illustrated on p. 812 and below. The total of the Paid Cash Book finds its way, at the end of the day, to the credit side of the General Cash Book or Daily Summary.

In case (*b*) the cheque forms part of the clearing house payments for the day and appears in the *in-clearing registers* under the heading of the bank presenting it. It is also entered in a Supplementary Paid Cash Book, kept for the record of all cheques paid in this way. The totals of this book are embodied in the Paid Cash Book at the end of the day Through the latter book they pass to the credit of the General Cash Book or Daily Summary.

In case (*c*) the cheques are passed through the Paid Cash Book to the credit of the customer by whom they were paid in. Cheques of this kind are known as *house cheques*.

PAID CASH BOOK

Name	Waste Book.			Walks			Paid Cashiers		
	£	s.	d.	£	s	d.	£	s	d.
C Wrayson							35	0	0
W. Higgins							5	0	0
C. Meyer							10	0	0

The cheques received by a bank, and presented through the clearing house, are entered in suitably analysed *out-clearing books* under the name of the various banks upon which they have been drawn. The totals of these books agree with the receiving cashier's waste books.

A daily summary of the bank's clearing house operations is made in a Clearing Balance Book. The totals of all cheques paid and received are entered in this book, and the difference between the two, after allowing for any items returned or held in suspense, is automatically discharged by an adjusting transfer between the bank's account at the Bank of England and the account kept for clearing bankers collectively. This transfer increases or decreases the bank's balance with the Bank of England to the extent of the difference between the totals of cheques paid and received respectively as appearing on either side of the General Cash Book. The inclusion of this item in the General Cash Book produces, for book-keeping purposes, an equality of entries on either side of that book at the end of the day in so far as the bank's clearing operations are concerned.

A Coin Balance Book or Money Book is kept by the chief cashier to record the total receipts of coin from customers and the Bank of England, and also the new bank-notes withdrawn from the Bank of England. The payments made in coin and notes over the counters are also recorded in this book. It is understood that £1 and 10s. Bank notes are treated as coin.

The daily totals shown in the cashier's Received and Paid Cash Book, Clearing Books, and other Supplementary Cash Registers, are frequently grouped at the end of the day in a Cash Balance Book for the purposes of agreement. The totals of the cash and notes in hand at the end of the day are brought into this book together with the totals of bills due or collected, and similar items. The agreement of the two sides of this book affords *prima-facie* proof that the cash portion of the bank's daily work has been accurately accomplished. The totals brought into this book are, at a later stage, repeated in the General Cash Book or Daily Summary of transactions, in common with the totals of all entries of every kind for the day in question. The form of this Summary is given at p. 816.

Bills of Exchange.

Money is not the only commodity in which a banker deals, he receives large numbers of bills of exchange from his customers for collection on their behalf, and these are usually lodged with the bank a few days before they fall due. Bills so paid in for collection are called *short bills*. A bank also purchases, or *discounts*, approved bills of exchange offered to it by its customers. Such bills are the absolute property of the purchasing bank, and are kept apart from bills held for collection on behalf of customers.

The short bills received from customers are paid in, on special paying-in slips, and are handed to the bill office for record and

CASH SUMMARY BOOK, DECEMBER 5, 19..

Dr.

	£	s	d	£	s	d
Loans paid off—						
Brown & Co				100	0	0
Deposits received—						
M. Way	50	0	0			
C. Vine	100	0	0			
				150	0	0
Interest received—						
Brown & Co.				1	14	6
Current Accounts—						
Amounts paid in:						
For Ledger A–K	12,024	16	8			
For Ledger L–Z	7,992	14	3			
				20,017	10	11
Bills receivable						
Transfers and Debit entries				151	14	6
				20,420	19	11
Cash Balance from December 4th .				4,111	16	3
				£24,532	16	2

Cr.

	£	s	d	£	s	d.
Loans granted—						
L Lewin				150	0	0
Deposits repaid—						
C Crow				1,000	0	0
Interest paid—						
C Crow				10	4	1
Current Accounts—						
Amounts paid:						
For Ledger A–L	11,665	14	8			
For Ledger L–Z	8,616	14	9			
				20,282	9	5
Bills discounted						
Transfers and Credit entries				151	14	6
				21,594	8	0
Cash Balance to December 6th ..				2,938	8	2
				£24,532	16	2

BILL DIARY.

Ledger Folio	Acceptor	Folio.	For Whose Credit at Maturity.	£	s	d
	Clutterbuck Bros, Ltd.		Miles & Co.	500	0	0
	Butterworth & Sons, Ltd.		A. Brown	1,000	0	0
	Measonthwaite & Co		C. Day	250	0	0
	A Child & Co.		B Wray	10	0	0
				£1,760	0	0

NOTE.—The total (£1,760) is *entered in the Cash Book* for the day as a debit, and the various customers are credited either direct from the diary or from credit slips made out to correspond with the entries it contains.

collection. There are various methods of recording these bills, but the following practice is satisfactory in most cases.

The bill department enters the bills received, according to their due dates, in specially ruled diaries wherein each day occupies a page. As the maturities for each day fall due, the bills are passed forward for presentation. The receiving cashier's books are debited with the totals of the bills due for collection, and the various customer's current accounts are simultaneously credited. A form of bill diary is shown on p. 816.

The bill department also keeps a suitably ruled Bill Ledger, in which an account is kept for every customer who lodges bills for collection and credit at maturity. The bills are credited in this ledger when received for collection, and are debited when paid. The balances outstanding at any time in this ledger, if extracted and totalled, will agree with the total similarly obtained by extracting the outstanding bills in the bill diaries, the relationship between the two sets of records being that the same bills are classified in the bill diaries in order of date, and, in the Bill Ledger, under the names of their respective owners. A form of Bill Ledger is given on p. 818.

In some banks two additional accounts are kept in the General Ledger, one being an asset account representing the total bills held for collection, and the other a corresponding liability account for the collective owners of the bills. These accounts show identical balances on opposite sides. Where this practice is followed entries must be passed each day for the total of the bills received, matured, returned, or purchased by the bank under discount.

In other banks the bill ledgers and bill diaries form the only record of the short bills held, and no entries for bills of this description appear in the General Ledger until the bills have been paid or discounted for the customer who lodged them.

When a bank discounts bills for a customer, it purchases them from him, less an allowance of interest known as "discount." Three books are commonly employed for the record of bills discounted.

(1) A Bills Discounted Register, which is a chronological list of the bills bought under discount, with full details of each. In this register each bill is given a distinguishing number, and this is written on the bill itself.

(2) A Bills Discounted Diary, similar in form and purpose to the bill diary already described for use in connection with short bills lodged for collection.

(3) A memorandum Bills Discounted Ledger, in which an account is opened for each customer who tenders bills for discount. All bills discounted are debited in this ledger when bought and credited when paid. This book is practically a "character book," its object being to show how much paper has been bought from each particular customer. If the total amount outstanding

BILL LEDGER.

Charles Marshall & Co.

Date.	When Due	Amount. £	s	d	Acceptor	Dr. £	s.	d.	Cr. £	s	d	Balance. £	s.	d.
19 .. April 1	April 20	100	0	0	Child & Co									
	May 31	150	0	0	Brown & Co									
	June 26	80	0	0	Robinson & Co				330	0	0	330	0	0

Note —As the Bills are paid they will be debited in this ledger from the Bill Diary, and the amount in the Balance column will be adjusted accordingly.

BILLS DISCOUNTED REGISTER.

(Discount Register)

No.	Date	Name.	Drawer	Payee.	Acceptor.	Date of Bill	Tenor.	When Due.	Amount. £	s.	d.	Total. £	s	d	Discount. Days to Run	Rate	Dis-count	Total of Discount £	s	d.	Remarks.
3250	19 .. June 1	W. Brown	Smith	A King	National Bank of S Africa, London	May 10, 19..	3 months	Aug. 13				150	0	0	73	4 %		1	4	0	Paid
3251	June 1	Roberts Bros.	Selves	Selves	Hosier & Co	Mar. 12, 19 .	3 months	Aug. 15	500	0	0				75						Paid
3252	June 1	Roberts Bros.	Selves	Selves	C Ray	May 14, 19	3 months	Aug 17	200	0	0	700	0	0	77			5	15	10	Rebated

in the name of any customer is thought to be larger than his financial standing justifies, his discount facilities are promptly curtailed.

Forms of a Bills Discounted Register and a Bills Discounted Ledger are shown on p. 818 and below.

DISCOUNT LEDGER.

ROBERTS BROS

Date	Acceptor.	When due.	Dr. £	s.	d.	Cr. £	s	d.	Balance. £	s	d.
19...											
June 1	Hosier & Co. ..	Aug. 15	500	0	0						
,, 1	C. Ray	,, 17	200	0	0				700	0	0
Aug. 15	Hosier & Co. ..	Due				500	0	0	200	0	0
,, 15	C. Ray	Rebated				200	0	0			
			£700	0	0	700	0	0			

The actual daily entries crediting the various customers with bills purchased are made out on posting slips of the usual form. In some banks the customer is credited with the face value of the bill, and debited with the discount charged, while in others he is credited with the net amount only. Entries must also be passed in the General Cash Book and General Ledger debiting Bills Discounted Account with the total face value of all the bills bought during each day, and crediting Discount Account with the total of the discounts deducted therefrom. In some banks a special supplementary journal, or cash book, is kept, either for discount transactions only or for discount and loan transactions combined, and the totals appearing in this book are incorporated each day in the General Cash Book. The name usually given to a supplementary journal of this kind is Discount Cash Book.

When bills mature, entries are passed debiting the cashier's books and crediting Bills Discounted Account with the total of the bills due for the day, in a manner analogous to that employed in the case of short bills collected.

The student will have noted that, upon buying a bill, the bank takes credit for the whole of the discount until maturity, it has already been explained that, at the date upon which it prepares its Profit and Loss Account, it must exclude from its current profits that portion of the discount which relates to the succeeding period. To omit to make this adjustment would have the effect of taking credit for unearned profits. The reserve so carried forward is known as the reserve for *rebate on bills discounted.*

ACCEPTANCES.

Banks accept large numbers of bills of exchange on behalf of their customers, who pay a commission for the accommodation, and undertake to provide the bank with the funds necessary to meet the bills when they fall due.

These bills are entered :—

(1) In an Advice Book directly notification of their having been drawn has been received

(2) In an Acceptances Register or Journal, in which full details of each acceptance are recorded

(3) In Acceptance Diaries, similar in form and use to bill diaries, already described.

(4) In Memorandum Acceptance Ledgers, in which accounts are kept for each customer—on whose behalf acceptances have been given. All acceptances given are debited when the drafts are advised and are credited, or marked off when covered or paid. Each account shows, at any time, the total bills outstanding on behalf of the customer, so that the accommodation afforded may be curtailed if considered advisable.

The form of a Register of Drafts Advised ; of an Acceptance Ledger ; and of an Acceptance Register is shown below and on p. 821.

DRAFTS ADVISED BOOK.

Name.	No.	Term	Due	When Paid	Amount £	s	d.
C Wray	3457	3 d/s	June 4	June 4	150	0	0

ACCEPTANCE LEDGER.

BANK OF IDAHO.

Date Accepted	Date Due	Number Of Credit	Number Of Bill	Dr. £	s.	d.	Cr £	s.	d.	Balance. £	s.	d.
19... Mar. 1	June 4	3256	1421	200	0	0				200	0	0
	June 4	Due	Due				200	0	0			

SECURITIES.

Banks undertake the charge of their customers' securities as part of their ordinary functions, and, provided a satisfactory balance is kept upon the customer's current account, the service is usually rendered gratuitously. A banker has no general lien over securities lodged with him unless the terms upon which they are deposited include the right of lien, or a right of lien is established by the course of dealing between banker and customer. This banker's lien is more than an ordinary lien, it enables the banker to sell, if default is made in repayment of an

ACCEPTANCES REGISTER

Date Accepted.	No.	Drawer.	Date of Draft	Tenor.	Payee.	For whom Accepted		Due	Amount £	s	d	Holder.
19 Mar. 1	3456	A Brown	Feb. 28	3 m/s	A Brown	Bank of Idaho ..		June 4	200	0	0	Westminster Bank
Mar 1	3457	C Wray	Mar 1	3 m/d	C Wray	Bank of Niagara ..		June 4	150	0	0	Joint Stock

SECURITIES RECEIVED REGISTER.

Date Received	Received for Account of	Amount of Security.	Description.	Securities Ledger Folio	Received from
19 June 10	A. Kaye	£ 1,000	Belgian 3 % Loan, 1914	1442	Hirst Bros
June 12	A. Kaye	100	Budapest 4½ % Loan 1914 Scrip	1442	Hirst Bros

NOTE.—The Securities Delivered Register is ruled in similar manner, the headings being altered to correspond

SECURITIES LEDGER.

ALEXANDER KAYE.

Securities Received.			Securities Delivered			Remarks.
Date.	Name of Security	Amount	Date	Name and Details of Security.	Amount	
19 June 10	Belgian 3 % Loan Bonds, No. 104621/30, 10 Bonds of £100 .	£ 1,000			£	
June 12	4 % Funding Loan £100 Bearer Bond No 2345678 .	100				

NOTE.—The heading " Remarks " on the extreme right is sometimes altered to read " Balance."

advance, after notice to the customer. A banker has a lien upon securities left with him *as a banker*, and in connection with which he has some duty to perform, such as the collection of coupons or similar functions. Banks also undertake to detach and collect the interest coupons attached to bearer securities, and to watch and notify their customers of the drawings of bonds for redemption. The custody of securities is not a matter that falls within the scheme of the bank's own accounts, but the two registers usually kept for these purposes may be briefly mentioned. The Securities Received Register contains particulars of the securities received and delivered and is sometimes accommodated in one book and sometimes in two, viz. securities received and delivered respectively. The other register is known as the Memorandum Securities Ledger, in which an account is opened for each customer who lodges securities for safe custody. In the securities ledger full details of the amount and description of each security deposited are given, together with the distinctive numbers of bonds and stock certificates; in some cases separate ledgers are kept for (*a*) bearer securities, (*b*) registered securities, (*c*) deeds, and (*d*) boxes and parcels lodged. In the latter case the bank acts as bailee only, and, as a rule, takes no cognisance of the contents of the boxes.

Illustrations of the forms of a Securities Received Register, and a Securities Ledger are given at p. 821. It may be mentioned in this connection that it has been found convenient in some cases to use loose-leaved books for these registers, subject, of course, to a proper method of check on the distribution of the leaves.

Bankers will usually undertake to purchase or sell stocks and shares on behalf of their customers, though not, as a rule, to give them financial advice. When transactions of this sort are undertaken for customers no special book-keeping is entailed, the purchases and sales being passed through the customer's current account and pass book in the usual way. The transactions are usually affected through the bank's stockbrokers, who share the usual commission equally with the bank.

Loose-Leaf Ledgers

Until comparatively recent times the loose leaf form of ledger was not employed in British banks to any extent for current account or other main ledgers, it was occasionally used however for subsidiary books. This state of affairs has now undergone considerable modification, as will be seen from the remarks below.

The mere suggestion of "looseness" in any form in connection with books of account arouses prejudice in the British mind, and particularly in the cautious mind of a banker, and there can be no doubt that the system offers an open door to fraud unless efficiently safeguarded.

The loose-leaf form of ledger is largely used in the United States for current account and other bank purposes, and the advantages obtained have presumably been found to outweigh

the additional risk involved; the latter can be reduced by proper supervision, and by the enforcement of strict rules as to the issue of fresh sheets, and if an accurate register of all the ledger pages issued and returned is kept

In the fourth edition of this treatise the author remarked that "It is not improbable that in time the loose-leaf form of ledger may grow in favour for banking purposes in certain directions." Since these words were written great developments have taken place in the use of loose-leaf books and machine accounting. The following information has been kindly supplied by the Chief Inspector of one of our great Joint Stock banks:—

Loose-Leaf Records and Mechanical Book-keeping

For many years there has been considerable prejudice amongst Bankers against any form of loose-leaf record

In the first place, the production of the actual bound ledger in a Court of Law was always regarded as of primary importance, and, secondly, the possibility of internal fraud was always considered more difficult when bound records were in use.

With regard to the first point, the importance of this has probably disappeared as in many cases a certified copy of the Account is accepted, and with regard to the second point it has been proved during the past few years that internal fraud can be guarded against provided an effective control over the current records and blank stationery is exercised.

It might not be out of place here to touch on the subject of mechanical book-keeping which has made such progress in the larger Banks. Whilst the systems employed by the various Banks differ considerably in operation, the general principles which are common to all systems are:

(*a*) The mechanical compilation of two or more records simultaneously

(*b*) A loose card or sheet for each customer's account.

It is probably the introduction of Machine Book-keeping which has been responsible for the general introduction of loose-leaf records throughout the more important Banks, and one would be right in saying that it is the exception at the present time rather than the rule to find any form of bound ledger.

Another important factor leading to the development of loose-leaf records has been the question of economy, both in the use of stationery and in storage space. For many years it has been the custom of the banks to open a set of ledgers to last a given period, generally twelve months. The spacing of these ledgers always provided some difficulty, and on the completion of the period for which they were opened, it was generally found that a considerable number of the folios had not been used. It will be seen, therefore, that when such records were placed in the safe, room had to be provided for such blank sheets, and in addition for the heavy bindings around each ledger.

To deal further with the question of control of stationery under the loose-leaf system as a guard against fraud, the most general method is for every sheet of the various forms of stationery used,

Current Account sheets, Deposit Account sheets, Register of Securities, etc , to bear a consecutive number. The sheets are kept under the control of a responsible officer, and when required for current use the purpose for which they are used is entered in a numerical register at the time the sheet is bound in the relative binder.

With regard to the custody of the ledger cards, which are of necessity unbound, whilst in use, the general system is for these cards to be housed in some form of cabinet which is kept locked, except when the cards are actually in use for posting or reference

EXAMINATION QUESTIONS.

1. Define an Accommodation Bill. On July 1st J. Jones drew a bill on B Brown for £150 at four months. The latter accepted the bill, and Jones discounted it at 6 % per annum, the proceeds being shared equally. The bill was met in due course by Brown, who at the same time received the moiety due from Jones. Show the transactions as they would appear in the Cash Book and Ledger of both Jones and Brown (*Chartered Accountants.*)

2. A banking institution having accepted bills drawn upon them by their customers, and to be provided for by the latter on or before maturity ; state how the respective responsibilities of the Bank and of its customers should be stated in the Balance Sheet of the Bank (*Chartered Accountants*)

3. On November 15th the Loamshire Bank, Ltd , purchased a two months bill for £100, dated October 30th, drawn by William Archer and accepted by George Shaw. State the entries which the Bank would make when recording this transaction, and give the ruling of one of the books named by you as employed by the Bank. (*Royal Society Arts.*)

4. Give two alternative rulings suitable for the Current Accounts Ledger of a Bank. From what materials are these ledgers written up ? (*Royal Society Arts*)

5. E. Simon drew a crossed order cheque for £75 8s. 6d. in favour of R. Mayer who, in due course, paid it into his Bank. Trace the history of this cheque in its progress through the books of Simon's bankers. (*Royal Society Arts.*)

6. Name three of the accounts which you would expect to find in the General Ledger of a Bank. Briefly explain their purpose, and describe the sources from which they have been written up. (*Royal Society Arts.*)

7. Give a ruling suitable for use in the Current Accounts Ledger of a Bank. Enter six specimen transactions therein ; and explain the advantages of the form you advocate. (*London Chamber Commerce.*)

8. Describe briefly the books of account which you would expect to find in use in a Bank. State what the " General Ledger " of a Bank should contain, and what information you would expect it to afford. (*London Chamber Commerce*)

9. Give the ruling of a Counter Cash Book suitable for use by the paying cashier of a Bank. (*Royal Society Arts.*)

10. On January 29th John Smith paid £284 17s. into his Current Account with the Steadfast Bank, as follows :—

	£	s	d.
Gold	72	0	0
Silver	5	12	6
Bank of England Notes	15	0	0
Treasury Notes	10	0	0
Cheques on London Banks	164	14	6
Cheques on Country Banks	17	10	0
	£284	17	0

Briefly describe the history of each of the above items in its passage through the books of the Bank, and give rulings of two of the books referred to in your answer. (*Royal Society Arts.*)

11. Explain briefly the methods employed in order to keep the books of a Bank constantly posted

On July 31st, George Reimers paid in the following to his Bank in the City · Cheque (Geo. Smith, London), £15 ; Cheque (Robt. Robinson, London), £20 ; Gold, £10 ; Bank of England Notes, £20 Describe the passage of the above items through the books of the Bank from the moment of their receipt until credited to the account of George Reimers. (*Royal Society Arts.*)

12. On January 25th, John Smith called at the Union Bank of London and paid in the following :—

	£
Gold	25
Bank of England Notes	50
Cheque drawn on the Old Bank, York	62
Cheque drawn on the Joint Stock Bank, Princes Street, E.C.	41
	£178

Trace the history of the above items as they would appear in the books of the Union Bank of London. (*Royal Society Arts*)

13. Describe the principal books of account (not more than six) used in one only of the following businesses : (1) Banking ; (2) Life Assurance ; (3) Electric Lighting. (*Chartered Accountants*)

14. The General Ledger of the Loamshire Bank, Ltd , contained the undermentioned balances as on December 31st Explain briefly what the figures represent, and where they would appear in the Balance Sheet of the Bank. (1) Current Accounts Account, £12,674,491 , (2) Investments Account, £7,832,922 , (3) Rebate on Bills not due, £12,466 ; (4) Short Loans Account, £5,432,768. (*Royal Society Arts.*)

15. Explain the meaning of the following items, and state where they should appear in the Balance Sheet of a Bank · (*a*) Cash in Bank of England ; (*b*) Acceptances and Guarantees (as per contra) ; (*c*) Deposit Accounts ; (*d*) Rebate on Bills not due , (*e*) Liabilities of Customers for Endorsements on Foreign Bills (as per contra) ; (*f*) Interest due on Investments. (*Royal Society Arts.*)

16. The Annual Accounts of the Old Berkshire Bank, Ltd., contain the following items · (*a*) Cash in Bank of England, £560,254 ; (*b*) Cash in hand (including £10,000 in the Company's own notes), £472,124 ; (*c*) Money at Call and Short Notice, £721,560 ; (*d*) Rebate on Bills not due, £5,420.

To what investigation should you, as auditor, submit the above items ? (*Chartered Accountants.*)

17. What do you understand by "Rebate on bills discounted," and how would you treat this item when preparing the Profit and Loss Account and Balance Sheet of a Bank ? (*Royal Society Arts.*)

18. Name two accounts you would expect to find in the General Ledger of a Bank. Describe the sources from which the information contained in the accounts is derived, and give the ruling of the books in which the details are collected. (*Royal Society Arts*)

19. George Dickson desires to transfer £1,500 from his Current Account to a Deposit Account. Explain the procedure which is necessary to effect the transfer, and give the posting slips which would be made out and the entries which would be necessary in the books of the Bank. (*Royal Society Arts.*)

20. Explain the meaning of the following items extracted from the Balance Sheet of a Bank · (*a*) Rebate on Bills not due (liability side) ; (*b*) Money on short notice (assets side) , (*c*) Liabilities of customers on acceptances as per contra (assets side) ; (*d*) Liabilities by endorsement on foreign bills sold (liabilities side). (*Chartered Institute Secretaries.*)

21. The undermentioned items appear in the General Ledger balances of the Loamshire Bank, Ltd.

(*a*) Cash in hand, £2,462,986 10s. 6d

What does this item include, and where would you place it in the published accounts of the Bank?
(*b*) Loans at short notice, £6,541,241 19s. 10d.
Explain briefly what this item would consist of, and denote its proper place in the published accounts of the Bank.
(*c*) Liabilities of customers on acceptances, £2,572,481 16s. 8d.
What does this item mean, and how would you deal with it in the published accounts of the Bank? (*London Chamber Commerce.*)

22. Among the assets of a Bank are the following. Cash; Notes; Money at Call; Loans and Overdrafts to Customers; Bills Discounted; Bank Premises.
What steps would you take to verify these assets, and to satisfy yourself that the figures at which each appears in the Balance Sheet are fair and reasonable? (*Chartered Accountants.*)

23. In the Balance Sheet of a banking company you find the following items:—Assets: Cash at Call and Short Notice; Bills Discounted; Liabilities of Customers for—Acceptances as per contra, Indorsements as per contra. Liabilities: Rebate on Bills not due.
Explain clearly the meaning of these items. (*Chartered Accountants.*)

24. Briefly explain the meaning of the undermentioned items appearing in the Balance Sheet of a Bank: Rebate on Bills Discounted; Bills Discounted; Liabilities of Customers for Endorsements as per contra; Money at Call. (*Royal Society Arts.*)

25. In the Balance Sheet of a Bank recently published in the Press, the undermentioned item appeared on the credit side of the statement: Liabilities of Customers for Acceptances as per contra, £7,220,780 12s. 2d.
Explain the meaning of this item (*London Chamber Commerce.*)

26. The undermentioned item appears on the asset side of the Balance Sheet of a London Bank:—

Bills Discounted:							
(*a*) Three months and under..	£4,872,462	2	11				
(*b*) Exceeding three months ..	571,381	1	1				
				£5,443,843	4	0	

Explain the nature of this item. Give a ruling suitable for the record of these bills in the books of the Bank. (*Royal Society Arts.*)

27. In the Balance Sheet of a Bank you will see, among the Liabilities, "Rebate on Bills Discounted"; and, in other Balance Sheets, among the Assets, "Unexpired Premiums on Fire Policies."
Explain the circumstances and reasons under which these items appear as a Liability and Asset respectively. (*Chartered Accountants*)

28. What steps would you take to audit the following Assets of a banking company? Cash on hand; Money at Call; Bank of England Stock; Great Western Railway Stock; Consols Certificates. (*Chartered Accountants.*)

29. The understated items have been extracted from the accounts of a Bank. Explain briefly what they represent: Liabilities of Customers on Acceptances as per contra (Cr. side of Balance Sheet); Rebate on Bills not due (Dr side of Balance Sheet); Money at Call and Short Notice (Cr side of Balance Sheet); Bills Discounted (Cr. side of Balance Sheet). (*Royal Society Arts.*)

30. In the case of a Bank, how should the discount on bills still running at the date of closing the books be treated in the Balance Sheet and Profit and Loss Account? (*Chartered Accountants.*)

31. In auditing a banking company's accounts, how would you verify: Cash and Notes at Head Office and Branches, Securities owned by the Bank; Loans to Customers on cover, Debtors for Overdrafts. (*Chartered Accountants.*)

32. The following assets appeared in the Balance Sheet of a discount company:—(*a*) Cash at Bank; (*b*) Loans to Customers; (*c*) Bills Discounted—(1) Three months and under, (2) Exceeding three months.

As auditor of the company, what steps should you take to verify the existence and value of these assets? (*Chartered Accountants.*)

33. After writing up the Profit and Loss Account, the General Ledger balances of the Conservative Bank, Ltd., as on December 31st, were as follows: Paid-up Capital, £1,500,000; Cash at Bank of England and in hand, £2,600,980; Customers' Current and Deposit Accounts, £17,580,000, Bills Discounted, loans and advances, £14,482,000, Freehold Premises, £380,000; Rebate on Bills Discounted, not yet due, carried to next account, £24,300; Reserve Fund, £1,200,000, English Government Securities, £1,250,000; Other Government Securities, £520,000; Profit and Loss Account (undistributed balance), £110,680; Securities pledged with public bodies, £81,000; Indian and Colonial Securities, £1,101,000 On the same date (December 31st) the acceptances on behalf of customers, and for which they were liable, appeared in the Acceptances Book of the Bank at £1,725,420. Prepare a Balance Sheet as on December 31st. (*London Chamber Commerce.*)

34. Criticise the following Balance Sheet State what improvements you would suggest, and your reasons for them.

BANK OF NEW ENGLAND, LIMITED.

LIABILITIES.		£
Capital		2,000,000
£3,000,000 in 100,000 shares of £30 each, on which £20 per share has been paid up.		
Reserve Fund		500,000
Notes in Circulation		522,750
Bills Payable		770,347
Deposit and Current Accounts		8,473,421
Other Liabilities		114,214
Profit and Loss		53,148
		£12,433,880
ASSETS.		**£**
Coin and Cash Balances with Bankers		1,303,756
Bullion in hand and in transit		173,770
Money at Call and Short Notice, Bills Receivable, Government Securities, and other Securities in London, etc		2,667,636
Investments in the Colonies, viz.:—		
Colonial Government Securities	£878,432	
Municipal Securities	119,953	
Other Securities	266,201	
		1,264,586
Bills Discounted		2,276,421
Other Advances and Securities and Debts, etc., due to the Bank		3,975,489
Landed Property, Premises, etc		772,222
		£12,433,880

(*Chartered Accountants.*)

35. From the following figures prepare the Profit and Loss Account and Balance Sheet of the B. C. Banking Company, Ltd., at December 31st: Capital, £2,000,000; Reserve Fund, £1,000,000; Cash at Head Office, Branches and Bank of England, £4,685,459 14s. 1d.; Loans at Call, £2,910,183 14s. 8d.; Interest paid to Customers, £67,599 11s. 7d.; Profit and Loss Account Balance, June 30, 1916, £61,685 12s.; Investments: Consols, £6,950,248 17s. 1d.; Colonial Stock, £950,127 3s. 9d, Corporation Stock, £1,209,246 18s; Other Securities, £12,732 11s. 5d.; Salaries and Expenses, £217,196 11s. 6d.; Current and Deposit Accounts, £34,450,116 7s 10d.; Liabilities on Acceptances, £3,234,502 18s 6d.; Discounted Bills Current, £10,140,079 14s. 4d; Advances to Customers, £10,434,135 12s 4d.; Rebates on Bills not due carried to next Account (debit Profit and Loss Account)

£27,207 6s. 2d ; Liabilities of Customers for drafts accepted by the Bank (as per contra), £3,234,502 18s. 6d. ; Freehold Premises, Fixtures, and Fittings, £488,127 5s. 2d ; Amount now written off Premises Account, £20,000 ; Gross Profit for Half-year, £553,335 14s. 1d. (*Incorporated Accountants.*)

36. From the following particulars prepare the Profit and Loss Account for the half-year ended December 31st and Balance Sheet at that date of the Security Banking Company, Ltd. Before doing so transfer £50,000 to Reserve Account and write off £30,000 from Premises Account; bring into account Rebate on Bills Discounted, £40,600, and Acceptances on Account of Customers, £1,560,000.

Investment in British Government Securities, £6,530,220 ; Advances to Customers, £20,840,450 ; Current and Deposit Accounts, £50,308,730 ; Cash in hand and at Bank of England, £7,560,680 ; Salaries and all Expenses including Auditors' and Directors' Fees, £300,880 ; Profit and Loss Account, Cr. Balance at July 1st, £90,890 , Bank Premises, £630,000 ; Investment in India Government Securities, Guaranteed Stock and Debentures, £3,566,840; Loans at Call and Short Notice, £3,740,530 ; Reserve Fund, £2,500,000 ; Investment in Metropolitan and other Corporation Stocks, £1,876,540 , Discounted Bills, £8,940,570 ; Interest Paid to Customers, £160,830 ; Capital Subscribed, £4,000,000—Paid up, £1,000,000 ; Gross Profit, £548,420 ; Investments in "Other Securities," £300,500. (*Central Association Accountants.*)

37. The following items represent the position of a Bank on December 31st, and the whole of its transactions during the ensuing year.

Open up the necessary accounts and prepare a Profit and Loss Account and Balance Sheet at December 31st following :—

		£
Capital paid up, December 31st		500,000
Balance of Profit and Loss Account from last year		9,756
Liabilities to Customers on Current Accounts		325,000
Liabilities to Customers on Deposit Accounts		236,500
Advances on Current Accounts and Loans		688,606
Bills of Exchange in hand		157,650
Investments		150,000
Cash in hand		25,000
Cash at Call and Short Notice		50,000
Cash paid in by Customers on Current Accounts		2,500,000
Cash paid out to Customers on Current Accounts		2,440,000
Cash paid in by Depositors		755,000
Cash paid out to Depositors		677,000
Bills Receivable, discounted	£300,000	
Less Discount charged thereon	10,500	
		289,500
Cash paid out on Bills discounted	10,000	
Balance credited to Customers' Current Accounts	279,500	
		289,500

(*Incorporated Accountants.*)

38. Prepare from the following particulars the Balance Sheet of the London and South Coast Bank as on June 30th : Authorised Capital, £10,000,000 ; Subscribed Capital, 400,000 shares of £20 each, £5 paid ; Investments, £7,000,000 ; Bills Discounted, £15,000,000 ; Bank Premises, £1,000,000 ; Acceptances for Customers, £5,000,000 ; Rebate on Bills not due, £50,000 ; Circular Notes and Letters of Credit, £2,000,000 ; Advances to Customers, £22,000,000 ; Liability of Customers for Acceptances, £5,000,000 , Endorsements on Bills Negotiated, £100,000 ; Reserve, £3,000,000 ; Current and Deposit Accounts, £56,000,000 ; Investment Depreciation Account, £100,000 ; Bills Negotiated, £100,000 ; Cash in hand and at Bank of England, £10,000,000 ; Cash at Call and Short Notice, £9,000,000 ; Profit and Loss Account, Credit Balance, £850,000. (*Central Association Accountants.*)

39. From the following figures make out the Balance Sheet of the Universal Bank, Ltd., at December 31st : Nominal Capital, £16,200,000 ;

Subscribed Capital, £14,400,000; Paid-up Capital, £3,000,000; Reserve, £3,000,000; Cash in hand and at Bank of England, £7,446,256; Money at Call and Short Notice, £7,818,188; Profit and Loss Account (Credit Balance), £109,287; Advances and Loans to Customers, £26,813,394; Investments, £6,939,652; Deposits, Current Accounts, etc., £48,119,985; Acceptances on behalf of Customers, £3,911,980; Bills of Exchange, £3,933,999, Liabilities of Customers for Acceptances, £3,911,980; Bank Premises, £1,277,783.

40. From the following details prepare the Balance Sheet and Profit and Loss Account of the N and M Bank.

	£	£
Capital		114,430
Reserves		145,210
Notes Issued		39,705
Customers' Credit balances		897,530
Unpaid Dividends		240
Gross Profits		32,490
Bad Debts	3,000	
Expenses	11,505	
Interim Dividend paid	5,720	
Balance of Profit and Loss Account brought forward		1,560
Cash on hand	38,135	
Cash at Call	44,230	
Investments	328,465	
Stamps in hand	505	
Premises	37,250	
Customers' Debit balances	762,355	
	£1,231,165	1,231,165

(*Chartered Accountants.*)

41. From the following particulars make out the Balance Sheet of the United Kingdom Bank at June 30th: Capital Paid up, £1,250,000, Reserve Fund, £1,700,000; Pension Reserve Fund, £100,000, Deposit and Current Accounts, £12,000,000; Profit and Loss Account, Credit Balance, £170,561; Investments, £4,037,149; Customers' Liability for Acceptances, £562,434; Cash in hand, at Call, and Short Notice, £1,873,179; Acceptances on behalf of Customers, £562,434; Bank's own Notes in circulation, £960,000; Bills Discounted and Loans made, £9,238,241, Bank Premises, £1,032,292; Reserve of Rebate on Bills Discounted, £10,300.

42. From the following particulars make out the Profit and Loss Account of the Southern Bank, Ltd, for the year: Rebate on Bills not discounted brought forward from last year, £10,000, Interest received, £300,000; Interest paid, £100,000; Discount on Bills Discounted, £100,000, Commissions received, £20,000; Salaries, £140,000; Printing and Stationery, £10,000; Directors' and Auditors' Fees, £10,000; Rebate on Bills Discounted to be carried forward to next year, £15,000; Profits on Investments sold, £5,000; Depreciation written off Investments, £25,000, Bad Debts written off, £15,000; Further amount set aside to provide for Doubtful Debts and Provisions, £10,000

43. From the following particulars make out the Balance Sheet of the East and West Bank, Ltd.: Cash in hand, £200,000, Cash at the Bank of England, £1,000,000; Money at Call and Short Notice, £1,500,000; Consols, £2,000,000, Current and Deposit Accounts, £10,800,000; Loans and Advances, £4,000,000; Share Capital paid up, £5 per share on 100,000 £10 shares, £500,000, Share Capital subscribed, 100,000 £10 shares; Rebate on Bills not due, £50,000; Bills Discounted, £3,000,000, Acceptances on behalf of Customers, £300,000; Profit and Loss Account, Credit Balance, £350,000

44. From the following particulars make out the Balance Sheet of the London Discount Bank at December 31st. The Bank has two Offices, a Head Office and a Western Branch.

Share Capital, £1,000,000 in £10 shares £2 10s. per share paid, £250,000; Reserves, £200,000; Cash at Head Office, £20,000, Bank of England Balance, £200,000; Bills Discounted at Head Office, £500,000, Consols and Government Securities (Head Office), £1,000,000; Money at Call and Short Notice (Head Office), £1,000,000; Current and Deposit Accounts (Head Office), £3,000,000, Current and Deposit Accounts (Western Branch), £1,000,000; Cash at Western Branch, £30,000; Loans and Advances made (Head Office), £1,314,000; Loans and Advances made (Western Branch), £50,000; Rebate of Discount carried forward to next year (Head Office), £9,000; Rebate of Discount carried forward to next year (Western Branch), £5,000; Bills Discounted at Western Branch, £400,000, Profit and Loss Account: Credit Balance from last year, £10,000; this year's Profits (Head Office), £30,000; this year's Profits (Western Branch), £10,000; Due from Head Office to Western Branch after transferring the Branch profits to Head Office, £525,000

45. From the following particulars make out the General Cash Book of the Bank of London for January 5th, showing the balance of cash on hand at the end of the day: Balance of Coin and Notes at commencement of day, £3,450; Received from Customers for credit of their Current Accounts: Gold, £100; Notes, £300; Cheques on other Banks, £15,500; Other Customers' Cheques on Bank of London, £300; Paid Customers' Cheques over the Counter, £1,550; Paid Customers' Cheques through the Clearing House, £17,275; Bills Discounted for Customers (face amount), £2,000; Discount charged, £20; Loans granted to Customers, £500; Expenses paid in Cash, £120, Bills Discounted matured, payment received through Clearing, £500.

The Balance due on Clearing House transactions was paid by the usual transfer on the Bank's Account at the Bank of England; the notes received from customers were paid into the Bank's Account with the Bank of England.

46. The following are a Branch Bank's transactions for one day (October 29th). From them make out its General Cash Book for the day and a statement of its Head Office Account.

Balance of Cash in hand brought from October 28th, £3,000; Received from Customers for their credit. Coin, £125 10s. 6d.; Bank of England Notes (sent to Head Office), £30; Cheques on other Banks (sent to Head Office for collection), £841 2s. 9d; Postal Orders (cashed at local Post Office), £14 1s. 6d; Paid to Customers against their Cheques: Coin, £212 8s. 6d; Bank of England Notes, £100; Paid Customers' Cheques presented by Local Banks, £25 1s 6d.; Paid Customers' Cheques presented through Head Office and debited by them to the Branch, £774 2s. 9d.; Balance due by Head Office October 28th, £64,521 8s. 9d.

47. I paid into my Current Account with the London and Provincial Bank, Ltd., on October 19th the following:—

	£	s.	d
Gold Coin	5	0	0
Silver and Copper Coin		15	9
Bank of England Notes	10	0	0
Cheque on the Bank of England	15	12	6
Town Cheques on various Banks	39	14	2
Cheque on the London and Provincial Bank, Ltd.	16	2	4
	£87	4	9

Rule the following forms and enter therein the foregoing items as far as the various forms are concerned: (1) Paying-in Slips, (2) Receiving Cashier's Counter Cash Book, (3) Received Waste Book; (4) Bank of England Book.

48. I drew a cheque on my Current Account for £55 which I presented for payment across the counter, taking £5 in gold, £5 in silver and the remainder in £5 Bank of England notes.

Rule a form of Paying Cashier's Counter Cash Book and enter in it the foregoing transactions.

49. Rule and enter in a Discount Register the following discount transactions of the Western Branch of the London and Northern Bank for April 6th: Discounted for A. Brown & Co. the following bills: At 5 %, £5,000 drawn by A. Brown & Co on Tye Bros. in favour of themselves at three months, dated April 1st, accepted April 3rd; at $3\frac{1}{2}$ %, £2,000 drawn by the Products Co, Ltd., on the London and Eastern Bank, London, in favour of A. Brown & Co. at three months, dated March 18th, accepted April 4th; Discounted for Child Bros. at 5 % a bill for £5,000 on Beale Bros., London, at two months, drawn by Child & Co., Calcutta, in favour of Child Bros., dated March 14th, accepted April 3rd.

50. The following are the transactions of A. Customer with the city office of the Safe Banking Company, Ltd.; interest is allowed on Mr. Customer's Current Account at 2 % per annum, provided he does not draw his balance below £2,000. From these particulars show the Current Account as it appears in the Bank's Ledger and in the Pass Book.

			£	s.	d.
Dec.	31	Credit Balance on Current Account	2,421	17	9
Jan.	5	Cash paid in	712	12	4
,,	6	Paid Cheque 14765, R. Jones	114	9	6
,,	9	Paid Cheque 14768, W. Hay	64	2	2
,,	13	Paid Cheque 14766, M. Wry	31	9	2
,,	13	Paid Cheque 14767, J. Kay	104	2	1
,,	17	Cash paid in	621	14	9
,,	23	Paid Cheque 14769, Petty Cash	10	0	0
Feb	5	Paid Cheque 14770, Eastern Lines, Ltd.	111	11	1
,,	9	Paid Cheque 14771, Self	25	0	0
,,	27	Cash paid in	63	2	9
,,	28	Account closed by transfer of balance (including interest) to Northern Branch.			

51. A customer sends to his banker the following securities. Rule a Securities Register and record them therein.

£1,000 Japanese $4\frac{1}{2}$ % Sterling Loan Bonds (10 bonds of £100 each, Nos XW13410 to 13419); £100 St. Paul Minneapolis and Manitoba, Pacific Extension, 4 % Bond 1942, No. 11111; £200 Belgian Government 3 % Loan 1914 (10 £20 bonds, Nos. 11114 to 11123); £100 Consols Bearer Certificate No. 1111.

CHAPTER XV

Assurance Accounts

Strictly speaking, a distinction should be made between the terms *Assurance* and *Insurance*. The former term is properly restricted to risks that are bound to happen, and is confined to Life Assurance; the latter term is used in connection with risks, such as fire, shipwreck, accident, burglary, etc., which may, or may not, happen. But this distinction, outside professional practice, is only loosely observed and indeed is scarcely appreciated by the general public.

Life Assurance.

Definition.—Life assurance is a contract, evidenced by a document called a *Policy* made between the assuring company (the *Assurer*) and the *Assured* by which in consideration of the payment by the assured of certain agreed sums, called *Premiums*, the assurer undertakes to pay to him an agreed sum called the *Sum Assured*, either on the death of the *Life Assured* or on the happening of some other specified event dependent upon the duration of human life. The Life Assured is usually, but not necessarily, the same person as the assured.

Classes of Life Assurance.—Life assurance is divided into two separate classes, viz. *Ordinary* and *Industrial*. In the case of Ordinary business, the premiums are paid annually, half-yearly, quarterly, or occasionally monthly, as may be arranged, and the sum assured is seldom less than £50. In the case of Industrial business, the premiums are usually paid weekly or monthly, and the sum assured is sometimes as low as £1. There is, however, no rigid line of demarcation between the two classes, and perhaps the best distinction that can be made is that, in the case of Industrial Companies, collectors or agents are employed to collect premiums from door to door, while in the case of Ordinary business the premiums are usually paid by the assured direct to the Company, or sent to an agent of the Company. Practically every Company transacting Industrial business also transacts Ordinary Life Assurance, although very few Ordinary Companies conduct an Industrial branch.

Kinds of Assurance Companies.—Broadly speaking, there are two classes of Assurance Offices: (1) *Proprietary (sometimes termed Mixed) Companies*, in which the capital has been subscribed in the ordinary way by shareholders; and (2) *Mutual Societies*, in which there is no paid-up capital and no shareholders, the

company or society being composed of the policy holders themselves. In older times the Proprietary Companies were genuinely proprietary, i.e. the whole of the profits were divided amongst the shareholders alone; but now the shareholders in such companies are usually only entitled to from 5 % to 10 % of the profits arising from the Life Assurance business, the remainder being divided amongst those policy holders who hold "with Profit" policies (see p. 835). So far as the policy holders are concerned, there is little to choose between a Mutual Society and a Proprietary Company of equal standing, since, in the latter, the share of the profits taken by the shareholders may be counterbalanced by advantages in other directions.

Mortality Tables.

The business of Life Assurance is based upon certain tables, called Mortality Tables, by means of which the chance of surviving a year at any age, or of dying within that year, is measured. If we could find a very large number of children, say 100,000, all born at the same moment, and could keep trace of them throughout their lives, noting the number who remain alive on each birthday until all have died, we should have a table giving the number remaining alive at each age. And if, instead of recording the number alive on each birthday, we could record the number who die between one birthday and the next, we should obtain the number who die during each year of life. Obviously the number who die during each year of life is the difference between the number alive on one birthday and those alive on the next birthday, our two tables being intimately connected.

In practice it would be impossible to find such a group of children, or to trace them from year to year, but this difficulty is overcome by recourse to the information available from census and other records, and by subjecting the information to certain skilled technical processes For example, the Northampton Table, an early example of a Mortality Table, was compiled from the Registers in the parish of All Saints, Northampton, for the forty-six years 1735–1780. It would be out of place to attempt to explain here the technical methods by which vital statistics are treated in order to fit them for actuarial purposes

From the Mortality Tables in use it is possible to ascertain the average value at any given date of a sum payable should a given person, or number of persons, die within, or survive, any fixed period, or die at any time; and also to assess the premium which an assurance office should charge for any policy of life assurance. The student should bear in mind that the doctrine of probabilities, which (with interest) is the foundation of actuarial calculations, is based upon masses of observations, and only applies to similar masses. Hence all the elements of assurance—annuities and single and annual premiums—have no reference to individuals, but are only true for adequate numbers of individuals, all of the same age and conditions of eligibility. Consequently the premium for a life which dies early is too small, while for a life which endures

for many years it is too large ; but if for the same age the same rate of premium (i e. an *average* rate) be charged, compensation is secured for those who pay a deficient number of premiums by those who contribute for a longer period of time.

Fortunately, the book-keeping student has no concern with the manner in which premiums are calculated. Persons skilled in such calculations, and in the financial questions connected with assurance business, Friendly Societies, and similar undertakings, are termed *Actuaries*. Actuarial examinations are held, and diplomas are granted, by the Institute of Actuaries in London and the Faculty of Actuaries in Scotland.

Expectation of Life.—If, reverting to our former illustration, we had recorded, and added together, the number of years lived by each of the 100,000 children, we should have obtained the total number of years lived by the members of the group as a whole, and if this total were divided by the number of members (100,000) the quotient would represent an average number of years, which is termed the "average after-life-time" (not a happy expression) for the particular age adopted. The term is misleading, for the reason that the function does not give the number of years which any particular individual may expect to live, and the student should take note that it is never used in actuarial calculations. For example, the value of an annuity payable during the lifetime of a person aged, say, twenty is not the same as the value of an annuity, independent of life, payable for a term equal to the "expectation of life" at age twenty. The function is useful, however, as an approximate mode of comparing the results of different Mortality Tables.

Sources and Names of Mortality Tables.—The majority of the Mortality Tables in general use are compiled from census records and similar data, or from the records of Assurance Companies, who periodically combine and collate the data in their possession. In the case of Mortality Tables compiled from the records of Assurance Companies, it has been found that the period elapsed since the policy was issued is of almost equal importance as the age attained. That is to say, the rate of mortality, amongst persons now aged thirty, who effected policies ten years ago, is higher than that experienced by persons of the same age who effected policies two years ago. Mortality Tables in which this point is taken into account are termed *Select Mortality Tables*, since effect is given to the period which has elapsed since the persons were "selected," after a medical examination.

The Mortality Tables commonly used by Assurance Companies at the present day as the basis of their calculations are: (1) the British Offices Select $O^{[M]}$; (2) the British Offices O^{M} in which selection is ignored; and (3) the British Offices $O^{M(5)}$, in which the first five years of assurance has been ignored, in order to make some allowance for the much lighter mortality experienced during the first few years of assurance. The last two tables are necessary, since the use of Select Tables is impossible for certain calculations on account of the vast amount of labour involved, although, as a

matter of theory, Select Tables should be used for all calculations involving Assured Lives

As the rate of mortality amongst Annuitants is very different from that amongst Assured Lives, and the mortality amongst Male Annuitants is different from that amongst Female, the British Offices Select Male, and Select Female, $O^{[am]}$, and $O^{[af]}$ Mortality Tables are used for Annuity business. All the above Tables have been compiled from the combined experience of the Life Assurance Companies themselves.

For Industrial business the English Life Tables No. 3 and No. 7 are generally used, both of which have been compiled from census records In the case of Mortality Tables compiled from census records it is obvious that "selection" is non-existent.

In addition to the Mortality Tables mentioned above, there are, of course, many others constructed from various sources, and there are very few Offices which have not, at some time or other, investigated the rate of mortality experienced amongst their members as a whole, or a certain section of them.

Loading.—In addition to the net sum, termed the *net* or *pure premium,* required by the Company to cover the risk involved, according to the Mortality Table and the rate of interest used, a further amount, called the *Loading,* is added to the "pure premium" to defray the expenses of management and to provide a margin for profit and unforeseen contingencies. These expenses include the commission paid to agents for the introduction of business.

Classes of Assurance.—A bewildering number of different kinds of life policies are now offered to the public, but on examination they will be found to fall into one of several different classes. The broadest line of demarcation is perhaps that which exists between *without profit* and *with profit* policies. Without profit policies cover the payment of a fixed sum at death, or on the happening of some other agreed event. With profit policies provide for the payment of a fixed sum, and also confer the right to share in such profits as may be earned by the Company before the policy becomes payable to the Assured. The share of profit payable to policy holders under these policies is termed a *Bonus.* Some Offices—though not all—issue in addition *Guaranteed Bonus Policies* and *Discounted Bonus Policies.* A Guaranteed Bonus Policy is simply a non-profit assurance under which the sum assured is periodically increased by a certain percentage—say 10 % every five years. Under the Discounted Bonus system the Assured surrenders from the outset a part of his share of the Company's future profits in consideration of a certain immediate reduction in the premium he would otherwise have had to pay. Such policies usually provide that, should the profits earned fall short of the amount anticipated, either the Sum Assured will be reduced or the premium increased, while the Assured usually receives his share of any profits which may be earned in excess of those anticipated.

In addition to the broad groups mentioned above, the classes of policies commonly met with are .—

Whole Life Assurances.—The Sum Assured is payable only when death occurs

Endowment Assurances —The Sum Assured is payable on a fixed date, or at death should it occur before the fixed date. Endowment Assurances are not usually issued for terms shorter than ten years, and as a matter of convenience usually mature at age 45, 50, 55, 60 or 65, or in 10, 15, 20, etc., years from the date when the policy is issued. A policy maturing in any period required can, however, be obtained.

Short Term Assurances.—The Sum Assured is payable only in the event of death occurring before a fixed date.

Pure Endowments.—The Sum Assured is payable on a fixed date provided the Life Assured is still alive. This class of policy is rarely met with alone, but often occurs in conjunction with other forms of assurance, e.g. a "Short Term" Assurance combined with a Pure Endowment.

Double Endowment.—A policy under which a fixed sum —say £200—is paid should the Life Assured survive until a fixed date, but should the Assured die before that date £100 only is paid.

Deferred Assurances.—A policy under which no risk is incurred by the Company until after a specified date. These assurances are usually only issued in the case of children when the assurance risk commences at age 21 or age 25. The premium, of course, is considerably lower than would be payable if the assurance commenced at once.

As a general rule the sum assured remains the same throughout the duration of the policy, but policies under which the sum assured increases or decreases from time to time are occasionally met with.

Payment of Premiums.—The premiums can either be paid throughout the duration of the policy or arrangements can be made that they shall cease at some earlier date. In the latter event the policy is termed a *Limited Payments Policy* or a *Term Premium Policy*. For example, an Endowment Assurance payable at age 65, with premiums ceasing, say, at age 45, would be termed an "Endowment Assurance by Limited Premiums." Although, as mentioned above, an infinite number of different classes of policies can be issued, in practice the vast majority are either Endowment Assurance, Whole Life, or Whole Life by Term Premiums. At p. 837 will be found a Table giving a few representative premium rates for various classes of policies.

Policies on Joint Lives, Etc.—In addition to policies depending upon one life, assurances are often issued: (*a*) Payable on the first death of two lives; (*b*) payable on the second death of two lives; or (*c*) payable in the event of one life dying before another. These policies are termed *Joint Life, Last Survivor,* and *Survivorship* policies respectively, and should be carefully distinguished. Indeed,

REPRESENTATIVE RATES OF PREMIUM FOR VARIOUS CLASSES OF POLICIES.

ANNUAL PREMIUMS FOR £100 SUM ASSURED.

	Age at Entry																	
	20						35						50					
	With Profits			Without Profits			With Profits			Without Profits			With Profits			Without Profits		
	£	s	d	£	s.	d	£	s	d	£	s	d	£	s	d	£	s	d.
Whole Life	1	17	11	1	13	0	2	15	5	2	9	1	4	11	4	4	3	4
Endowment Assurance payable at death or in :—																		
15 years	6	12	7	5	18	5	6	16	5	6	2	4	7	9	1	6	14	9
20 years	4	18	2	4	5	10	5	3	0	4	10	6	5	19	3	5	3	5
25 years	3	17	10	3	7	0	4	3	9	3	12	8	5	2	2	4	9	2
Whole Life Premiums limited to :—																		
15 payments	3	9	5	2	14	4	4	11	6	3	14	3	6	1	8	5	7	6
20 payments	2	16	9	2	4	8	3	15	6	3	1	8	5	3	6	4	12	0
25 payments	2	9	7	1	19	1	3	6	3	2	14	8	4	14	2	4	4	5
Single premium	39	14	8	32	17	4	50	5	4	42	16	7	64	7	10	57	3	6
Short Term Assurance :—																		
1 year		*			17	6		*			18	2		*		1	7	11
5 years		*			19	7		*		1	3	4		*		1	18	1
10 years		*		1	1	0		*		1	6	2		*		2	6	7

* Short Term Assurances are never granted "With Profits."

(Form referred to under Heading No. 7 in Fourth Schedule [A]).

VALUATION BALANCE SHEET OF .... AS AT . . .. 19...

Dr.	£	s.	d	Cr.	£	s	d.
To net liability under Life Assurance and Annuity Transactions (as per summary statement provided in Fourth Schedule [A])				By Life Assurance and Annuity Funds (as per Balance Sheet under Schedule 3)			
„ Surplus, if any				„ Deficiency, if any			
£				£			

any number of lives can be involved in one policy, and the author has met with one awful example which depended upon no less than ten different persons dying in a certain order!

Annuities.

In addition to Life Assurance, most, though not all, Companies sell annuities. That is, in return for an immediate cash payment, they undertake to pay a certain sum yearly, half yearly, or quarterly, during the lifetime of a specified person called the *annuitant.* The purchase price is based on the age and sex of the annuitant. As a general rule, no investigation is made into the annuitant's state of health, as is done in the case of a life assurance, since the worse the life the more profitable is the transaction to the Company. It is a matter of experience, however, that the rate of mortality amongst annuitants is abnormally low, since persons who know or suspect themselves to be in a poor state of health, or possess a defective family history, especially at the older ages, do not usually purchase annuities. Another explanation of the low mortality of female annuitants is the fact that almost universally they are bought after the child-bearing age has been passed; and further, that the discovery of antiseptic surgery has enabled internal tumours (which more usually occur in women) to be extirpated before they have assumed a malignant form. For those and similar reasons annuity business usually yields but little profit to the Company, as the rates charged are to some extent fixed by those charged for annuities issued by the National Debt Commissioners on behalf of the Government.

In certain cases, after a medical examination, some Offices are willing to offer special annuity terms to a poor life; but the total absence of any data as to the rate of mortality amongst impaired lives, the infinite number of degrees of ill-health which are met with, and our ignorance as to the exact effect of disease upon longevity, prevents this branch of annuity business from becoming more general.

Contingent and Deferred Annuities.—As a general rule annuities are purchased by the payment of a sum down, but *contingent annuities*, i.e. annuities payable only should one person survive another, and *deferred annuities*, purchased by annual payments over a certain period, are also granted.

Joint Annuities.—Annuities are also granted which are payable during the joint lifetime, or during the joint lifetime and the lifetime of the survivor, of two or more persons. The first form, which ceases on the first date, is, however, comparatively rare.

Valuation.

The Reserve.—To arrive at the profit earned by ordinary trade, the student is well aware that it is necessary to bring into account liabilities, or debts which have been incurred, although the actual date for payment may not have been reached at the time when the accounts are drawn up. In the case of Life Assurance, the

Company has undertaken to make certain payments on the happening of certain events, while, on the other hand, it is entitled to receive certain premiums year by year from the policy holders. In order, therefore, to ascertain the true financial position of a Life Assurance Company at any particular date, it is necessary to find out (1) the value at that date of the liabilities which have been undertaken by the Company under its policies, and (2) the value at the same date of all the pure premiums which are payable under the policies. The difference between these two amounts represents the net liability incurred by the company under its existing policies. This net liability (which, rightly, should be named "net value of liability") is technically termed the *Reserve.*

Provision for Expenses.—In addition, however, to the present value of these liabilities, and the present value of the prospective assets in the form of the pure premiums, the Company will be obliged to incur in the future certain management and other expenses in order to keep its policies in force, and therefore provision for these expenses must also be made. Provision can be effected for the future expenses of management, commission, contingencies and contributions to profits in the following modes :—

(1) In the *Pure Premium Method* of valuation (where the premiums for the risk of death alone are valued) the provision automatically exists, for the difference between the *pure* premiums and the *office* premiums, i e. the actual premiums payable by the policy holders, is by this method left unvalued, and is accordingly reserved annually for the annual costs.

(2) Or, the actual premiums may be valued on the one side, and on the other side be placed the present value of the future expenses based upon a consideration of past experience during the existence of the valued contracts.

(3) Or, the Company may properly value, as its valuation premiums, the actual premiums *less* a percentage thereof, which percentage takes account of the past rate of expenditure. Then the difference between these valuation premiums and the premiums payable by contract forms an unvalued and reserved annual provision for this object as in No. (1).

It may be added that plan No. (2) is only used at present, and apparently only occasionally, as a check upon one or other of the other two plans of valuation. Plan No. (3) is becoming more prominent, and is a sound method. Plan No. (1) is generally resorted to, but there is no magic of propriety in its use. It is frequently quite inapplicable, e.g. in the transfer of one company to another, in the amalgamation of companies, and in cases of valuation accompanying a winding up or a reduction of contracts; while plan No. (3), by adaptation according to the circumstances of each case, is generally feasible.

Quinquennial Valuation.—The process of ascertaining the value of the liabilities and assets of an Assurance Company at any given date is termed *valuation.* The work involved is of a highly

technical nature. In accordance with the Act of 1909 an actuarial valuation must be made by every Assurance Company at least once in every five years. This valuation is accordingly known as the *Quinquennial Valuation.* The results and particulars of the valuation must be forwarded to the Government, which, in due course, publishes them. In addition to the Quinquennial Valuation, many offices make a valuation every year for their private information.

Beyond certifying the amount of the Assurance Fund, neither the accountants nor the auditors of an Assurance Company have any concern with the valuation, which is purely actuarial work.

Results of Valuation.—An actuarial valuation determines the exact liability of an Assurance Company in respect of all the policies in force, and fixes the Reserve which must be made. This Reserve represents the sum of money which, together with the future pure premiums accumulated at the rate of interest adopted for the calculation, will provide sufficient funds to meet all claims as they fall due, while the difference between the premiums actually payable and the pure premiums valued is thus held unvalued, and suffices to defray the future charges of management.

Rate of Interest Employed.—The most important factor in a valuation is probably the rate of compound interest adopted by the Company, since the lower the rate of interest used the larger are the reserves which become necessary. As a natural consequence, a Company strengthens its position by valuing at a low rate of interest. It is important, however, to bear in mind that it is the margin between the net rate of interest earned on the funds (see p. 861) and the rate used in the valuation which is of supreme importance. Until recently the rates of interest most frequently employed were 3 %, $2\frac{3}{4}$ % or $2\frac{1}{2}$ %, but at the present day there is a tendency to consider whether slightly higher rates, such as $3\frac{1}{4}$ % or $3\frac{1}{2}$ %, should not be employed, in view of the general rise in the rate of interest obtainable on investments. As already mentioned, the Mortality Tables usually employed in valuations are either the $O^{[M]}$ or the $O^{M(5)}$, although in some cases a combination of these two Tables is used. It should be added that a valuation includes also the value of the liability under the annuities which the Company has sold

Valuation Balance Sheet.—If the student will refer to the form of *Valuation Balance Sheet* given at p. 837, he will see that the total present liability is disclosed in the Valuation Balance Sheet, and against it is put the total of the Life Assurance Fund available to meet it. The difference between the total liability and the total available funds represents the *surplus* or *deficiency*, as the case may be. After allowing for any amounts brought forward from previous valuations, this surplus (if there be a surplus) represents the profit earned by the Company since the last valuation. The chief sources of profit in the case of an Assurance Company are: (*a*) A rate of mortality experienced which proves to be lighter than was assumed in the calculations;

(*b*) economy in the actual expenses, so that they prove to be lighter than those provided for in the "loading" added to the "pure" premiums; (*c*) the realisation of a higher rate of interest from investments than was anticipated; (*d*) profits from sundry sources, such as the sale of investments, etc

Utilisation of Surplus.—From the surplus disclosed in the Valuation Balance Sheet amounts are sometimes set aside to create, or increase, Investment Reserve Funds; to enable the valuation basis to be strengthened by adopting, for example, a lower rate of interest at the next valuation, and for similar purposes. The remainder of the surplus is then divisible amongst the shareholders, if any, and the holders of "with profit" policies It is only out of the surplus ascertained in the manner described above that profits can be distributed

Bonuses.

Several systems are in use for the division of the surplus amongst the "with profit" policy holders, the two most generally used being termed the *Simple Reversionary Bonus* and *Compound Reversionary Bonus*. Under the "simple" system, the bonus is expressed as a percentage on the sum assured alone, and usually varies from 1 % to 2 % (occasionally more) for each year's premium paid since the last distribution As its name implies, the bonus is declared as a reversionary amount, payable together with the sum assured when a claim arises. The "Compound" system differs only from the "Simple" in so far as the bonus is calculated as a percentage on the sum assured plus the bonuses added thereto, instead of as a percentage on the sum assured alone.

Surrender of Bonus.—Although the bonus is usually expressed in the form of an addition to the sum assured, and is only payable in full when a claim arises, it can always be exchanged, or "surrendered" for its present cash equivalent, i.e. discounted, as it were. As an alternative to drawing the present value in cash, the bonus may, under many policies, be applied to reduce future premiums, or it may be applied to reduce the term during which the premiums are payable.

Selecting a Life Office.—When a "with profit" policy is intended to be taken out, it is necessary first to consider both the rate of premium charged and the past rate of bonus declared by the Company, as both vary.

The probability that the rate of bonus will be maintained must also be considered, but this is a matter for expert advice. Indeed, the question is one which it is extremely difficult for even an expert to decide, since reductions in the rate of bonus are generally due to causes such as a heavy fall in the value of securities, the probability of which cannot be foreseen. Assurance Companies, however, attach great importance to the maintenance of their rate of bonus, and under normal conditions, if a good office is selected, there is little likelihood of any serious reduction. Under the abnormal conditions caused by the war many offices

(Form of Proposal.)

LIFE PROPOSAL.

A. Full Name, Residence, and Profession or Occupation, of the Person whose Life is proposed to be Assured. Whether Married or Single?	
B. Full Name, Residence, and Profession or Occupation, of the Person proposing to effect the Assurance, if other than the person named above	
C. What is the sum to be Assured? Description of the Assurance desired? Is the Policy to be With or Without Profits? Are the Premiums to be payable yearly, half-yearly, or quarterly?	£

QUESTIONS TO BE ANSWERED BY THE PERSON WHOSE LIFE IS PROPOSED TO BE ASSURED

1. Where were you born, and when?	At In the County of	On the ...... day of In the year	Age next Birthday

	Living.			Dead		
	Present Age.		State of Health	Age at Date of Death		Cause of Death
2. State the ages of your Parents, Brothers, and Sisters who are alive, and the present condition of their health. If any are dead, state at what ages, and of what diseases they died	Father	alive, aged		Father	dead, aged	
	Mother	alive, aged		Mother	dead, aged	
	Brothers	alive, aged		Brothers	dead, aged	
		alive, aged			dead, aged	
		alive, aged			dead, aged	
		alive, aged			dead, aged	
	Sisters	alive, aged		Sisters	dead, aged	
		alive, aged			dead, aged	
		alive, aged			dead, aged	
		alive, aged			dead, aged	

3. Are you of strictly sober and temperate habits? Have you always been so?	
4 (1) State the Name and Address of your usual Medical Attendant (2) When was he last in professional attendance, and what was the nature of the ailment? (3) Have you consulted any other Medical persons? (4) If so, on what occasions, and for what diseases have you consulted them?	4 (1) ... (2) ... (3) ... (4) ...
5 State the name, occupation, and FULL POSTAL ADDRESS of two intimate friends (*not being Relatives, and not interested in the Assurance*), for reference as to health and habits	Has known me ..... years Has known me ..... years.
6 (1) Is your life being now proposed for Assurance elsewhere? If so, give the name of the Office (2) Has your life ever in the past been proposed for Assurance at this or any other Office? If so, state when, and to what Office (3) Has a proposal on your life ever been accepted by any Office at an Extra Premium, or on special terms? (4) Has a proposal on your life ever been declined or deferred by any Office?	6 (1) ... (2) ... (3) ... (4) ...
7. Have you ever resided beyond the limits of Europe? If so, where? when? and how long?	
8 Have you ever had, or have you at present, any prospect or intention of proceeding beyond the limits of Europe, or have you any business engagements or connections which in your opinion may lead you beyond these limits?	
9. Have you ever had, or have you at present, any prospect or intention of entering into Naval or Military Service?	

DECLARATION.

I, ... before designed, do hereby declare that I am at present in a good state of health, and am not afflicted with any disease or disorder tending to shorten life; that the above statement of my age, health, and other particulars, is true to the best of my knowledge and belief; and that I have not withheld or concealed any circumstance tending to render an Assurance on my life more than usually hazardous. And I, ... (the Person proposing to effect the Assurance), do hereby agree that the foregoing answers, this Declaration, and the answers given to the separate questions put by the Company's Medical Officer, shall be the basis of the Contract between me and the EAST ANGLIAN ASSURANCE COMPANY, and the Company may pay Commission to their Agents, whether acting as Agents of the Assured or not

Signed at .... this .... day of .... in the year of our Lord One Thousand Nine Hundred and ....

Signature of Person whose Life is to be Assured ....

Signature of Person proposing to effect the Assurance (if other than the above). ....

Evidence of Age—It is necessary in all cases that evidence of the age of the person whose life is assured should be produced to the Company before the Claim under the Policy be paid, and it is desirable that the usual Extract from the Register of Births, or other sufficient proof, be furnished at the time of effecting the Assurance.

passed, or reduced, their bonuses, though rather perhaps as a measure of precaution than from actual necessity, and it is probable that, in its general result, the war has left the life assurance offices no less strong than before.

PROPOSALS.

A person desirous of effecting an assurance must fill in a *proposal form*. A specimen proposal form is given at page 842. This form is the basis of the contract, and is signed and declared to be true by the proposer. A contract of life assurance is a contract *uberrimæ fidei*, i.e. a contract in which the proposer is bound to observe the utmost good faith. In filling up the proposal form the proposed must not only abstain from making any deceptive statement, but he must state all the material facts within his knowledge. The decision whether a fact is material or not does not depend upon the opinion of the proposer, but upon whether the fact is in itself material. Consequently all information relevant to the assurance should be revealed

Insurable Interest.—As already mentioned, an assurance may be effected by one person on the life of another, but in such cases it is legally necessary that the proposer shall have an *insurable interest** in the life assured. That is to say, if, at the time when the policy is taken out, the death of the life assured would be likely to cause a monetary loss to the assured, an insurable interest exists which may be legally covered by a life policy. The assured's interest in the life must be a pecuniary one, since no ties of blood or affection are sufficient. Probably the commonest example of an insurable interest is that which a creditor has in the life of his debtor. It must further be noted that the amount of the policy must not exceed the pecuniary loss likely to be sustained.

By the *Married Woman's Property Act of* 1882, a married woman may assure the life of her husband, and it has been held that a husband has an insurable interest in his wife's life (*Griffiths* v. *Fleming*, [1909] 1 K.B. 805).

By the *Assurance Companies Act*, 1909, policies may now be issued for small amounts for the purpose of meeting funeral expenses, provided the proposer has reason to expect that such expenses will have to be met by him. It may also be mentioned that the *Friendly Societies Acts* contain restrictions in regard to the assurance of infants.

Acceptance of Proposal.—After the proposal form has been completed, the Life Assured is examined, at the Company's expense, by a doctor appointed by the Company for this purpose, and reports are obtained from two friends of the Life Assured as to his fitness for assurance. On the facts revealed by these reports

* The Gambling Act prohibits "gambling and wagering," and renders void any policy in which an insurable interest does not exist. In the middle of the eighteenth century gambling by means of life assurance became a public scandal, although these transactions were of the nature of bets rather than policies as we know them to-day.

the Company decides whether or not to accept the risk. If the case is accepted, the proposer is notified to this effect. A typical letter of acceptance is shown at p. 856. Upon receipt of the letter of acceptance the first premium becomes payable, the assurance commencing as soon as the premium is received by the Company If the first premium is not paid within a reasonable period, usually stated in the letter of acceptance at from fourteen to thirty days, fresh evidence of health may be required.

POLICIES.

Shortly after the first premium has been paid the *Policy* itself is issued to the Assured A specimen Policy form is shown at p. 846. Subsequent premiums, called *renewal premiums*, are payable periodically, annually, half-yearly, quarterly, or monthly, as may be arranged and as stated in the policy.

Restricted Policies.—It will be observed that the form of policy at p. 846 is headed *World Wide*. This refers to the first sentence of Clause 3, which reads: "This policy is free from all restrictions as to residence, travel or occupation." The majority of policies now contain similar words, but in some cases restrictions are imposed. For example, it is not uncommon to find that the sum assured is not payable should the Assured commit suicide within a certain period after the policy is issued.

Again, if the Assured is under twenty-five and his future career is uncertain, or if he is likely to travel in unhealthy countries, or to engage in any hazardous occupation, a policy termed a *Restricted Policy* is issued. That is to say, the words making the policy unrestricted are omitted, and a clause is added which gives the Company power to increase the premium by charging an *extra premium* in certain circumstances. The "extra premiums" charged for residence in unhealthy countries vary from 10s. for some parts of India to £7 7s. or £10 10s for each £100 assured charged for localities like the Congo. The practice of different offices, however, varies so much that no general rules can be laid down. Extras charged for hazardous occupations are rather rarer than extras imposed for residence abroad, outstanding examples being that of the liquor trade and the naval and military services. The mortality amongst those engaged in the first-named occupation is much higher than that amongst normal lives, and the extras charged vary from 10s. to £2 per £100 assured, according to circumstances The practice as regards naval and military service has hitherto been to give the Assured the option of either paying a continuous extra premium of about 7s. 6d. to 10s 6d % until he permanently retires from the service, or of paying no extras until he actually goes on active service, when an extra is fixed by the Company. In wars prior to that which began in August 1914, the extra premium has varied from £5 5s. to £15 15s. % according to circumstances, but the superior limit has been exceeded in the late war. It is probable, however, that the whole treatment of naval and military extras will be recon-

(*Form of Policy.*)

WORLD WIDE.

Life Policy No. ....

Whereas the person named in the Schedule hereto as "the Assured" being desirous of effecting with the EAST ANGLIAN INSURANCE COMPANY (hereinafter called the Corporation) the Assurance described in the said Schedule on the life of the person therein and hereinafter named as "the person whose life is Assured" has made the proposal and declaration mentioned in the said Schedule and has paid the first premium for the said Assurance.

Now this Policy Witnesseth as follows —

FIRSTLY —The said proposal and declaration shall be the basis of this Contract, it being nevertheless hereby expressly declared that neither error in nor omission from such proposal and declaration not wilful and in the nature of fraud shall render this Policy void.

SECONDLY.—Provided that the premiums set forth in the said Schedule shall have been duly paid, and subject to the other conditions and provisions herein and in the said Schedule contained or therein referred to, the Corporation will, on proof satisfactory to the Directors of the Corporation of (1) the happening of the event or contingency described in said Schedule; (2) the title of the person or persons claiming; and (3) the age as stated in said proposal and declaration of the person whose life is Assured, if it has not been previously admitted, pay to the person or persons to whom in terms of the said Schedule the sum hereby assured is payable the amount of the Assurance mentioned in said Schedule.

THIRDLY —The following Privileges attach to this Policy, viz.—

It is free from all restriction as to residence, travel, and occupation

Thirty days of grace are allowed for payment of each premium, during which the Corporation shall continue liable for payment of the sum assured, subject to deduction of the premium This liability shall cease at the expiry of such days of grace, subject to the following provisions;—

(*a*) The Assurance may be revived within the then next following eleven calendar months (if the person whose life is Assured be still alive) by payment of the premium, with interest thereon at the rate of one-half per cent. for each month, or part of a month, of the period during which it is overdue

(*b*) If the event or contingency described in said Schedule on the happening of which the sum hereby assured is to become payable shall occur within eleven months from the expiry of the days of grace, and provided that there is then in the hands of the Corporation a Free Surrender Value (after deduction of any advance made by the Corporation upon the security of the policy) equal to one year's premium, the amount of the Assurance is payable in full under deduction of the unpaid year's premium with interest thereon at the rate of one-half per cent for each month, or part of a month of the period during which it is overdue.

Provided always that the Capital Stock of the Corporation and the Accumulated Funds for the time being belonging to the Life Department of the Corporation, and all other the Stocks, Funds, Securities, and property of the Corporation (except the Funds for the time being belonging to the Fire Department), shall alone be liable to satisfy all claims under these presents, and no Shareholder of the Corporation shall be liable beyond the amount of the unpaid portion of his Share or Shares of the said Capital Stock.

THE SCHEDULE.

Name, Address, and Profession or Occupation of the Assured		*Hugh Dixon, of Broad Street, London, Merchant.*
Name, Address, and Profession or Occupation of the person whose life is Assured		*The same*
Date of Proposal and Declaration		*28th day of April, 19 ..*
Amount of the Assurance	Sum Assured	*One Thousand Pounds.*
	To whom payable	*The Representatives or Assigns of the Assured*
	Whether the Policy is to participate in the profits of the Life Assurance Branch of the Corporation as these may be from time to time determined and allocated by the Directors	*With Participation*
Event or contingency on the happening of which the Sum Assured by this Policy is to become payable		*Death of the person whose life is assured*
Date of birth of the person whose Life is Assured, as stated in the Proposal and Declaration		*1st day of March, 18 ..*
Whether age is admitted or not		*Admitted*
Premium	Amount	*Twenty-five Pounds five shillings*
	How payable	*Yearly*
	Date or dates when due	*4th day of May*
	Period during which payable	*The whole currency of the Policy*
Special Provisions, if any		*None.*

In Witness Whereof, etc.

(*Signatures.*)

sidered in the near future as a consequence of the war, but with what results it is too early to say.

Proving the Age.—When a policy is taken out, the age of the Life Assured should be proved to the Company by the production of a certificate of birth or baptism. This evidence is always required before a claim is paid. Should a mistake be made in stating the age when the policy is effected, adjustments will be necessary sooner or later when the mistake is discovered. These adjustments usually take the form of payment of the difference between the premium charged and that required for the real age, with interest on the arrears, an alternative method being to alter the sum assured to the amount that would have been secured at the true age by the premium which has actually been paid.

Lapsed Policies.—In the case of ordinary life assurance premiums, thirty *days of grace* are usually allowed for payment. If the premium is not paid within the days of grace the policy *lapses*, but if the assurance has a surrender value in excess of the overdue premium a loan can usually be obtained from the Company for the purpose of meeting the premium, or arrangements can be made to keep the policy in force for a year after the premium became due on payment of a "fine," that is to say, interest on the premium. If the premium is allowed to become more than a year overdue, the Company's risk under the policy ceases, and the only amount which can be claimed is any surrender value which may be attached to it. In the case of some Companies *non-forfeitable* regulations are in force, by which any surrender value that may attach to the policy on the date when the unpaid premium fell due is applied towards paying it, and successive premiums, until the amount is exhausted. Contrary to the general opinion of the public, "lapses" are a source of loss to a Company rather than a source of profit. For this reason every effort is invariably made to enable the Assured to keep his policy in force as long as possible, although the exact arrangements made may differ in almost every case.

Surrender Value.

If the Assured wishes to terminate the contract before the time fixed by the policy for the payment of the sum assured, an allowance termed a Surrender Value is paid to him by the Company. The student will remember that the reserve held against a policy by the Company is the difference between the present value of the liability it has assumed and the present value of the pure premiums which the Assured has undertaken to pay to keep it in force. This reserve can also be obtained by adding together the pure premiums paid by the Assured, with interest thereon, and deducting therefrom the amount required to provide for the risk of having to pay the full sum assured during the years the policy has been in force, together with the expenses incurred by the Company during that period.

From the explanation above, the student will see that the only amount which a Company has in hand at any date, against any

particular policy, is the "reserve" value, and that this is the utmost which could possibly be allowed as a surrender value. Since, however, the Assured is breaking his contract with the Company, he is obviously not entitled to the whole of this reserve value. In strict equity he should place the Company in the same position after the surrender as it would have been in had the contract been terminated by the maturity of the policy. In other words, he cannot expect the Company to suffer a loss simply because he chooses to change his mind

In fixing the surrender value to be allowed to the Assured, a deduction is made from the reserve value to cover the loss involved by his withdrawal. The exact deduction varies according to the class of assurance, the age at entry, and the duration of the policy, so that no general idea can be given. As each policy issued by a Company involves at the outset various heavy initial expenses, no surrender value is usually given until the assurance has been in force for a certain period. This period usually is three years for Whole Life Policies, and two years for Endowment Assurances. Under certain classes of policies, such as Short Term and Survivorship Assurances, no surrender values are allowed, as the premiums paid are only just sufficient to cover the risk involved and the expenses incurred year by year.

ASSIGNMENTS.

Policies of Assurance are often assigned by one person to another, but skilled knowledge is required to carry out the procedure involved, and a solicitor should always be employed for the purpose. It is the author's experience that amateur attempts at assignments of this kind frequently give rise to trouble and expense at some later date. The student should, however, remember that the mere deposit of a policy only confers a very shadowy right to its proceeds, and, further, that no assignment is complete until formal notice thereof has been given in writing to the Company concerned. An assignee of a policy has the same rights as his assignor and can recover on the policy although he has no "insurable interest."

CLAIMS.

When the sum assured by a policy becomes payable by death or maturity, certain formalities must be observed by the claimant. In the case of an Endowment Assurance which has matured because the Assured has survived until the date fixed, practically the only formality required is satisfactory proof that the Assured has really survived. In the case of a claim arising by reason of death, the Company requires to be satisfied that the deceased is the same person as the Assured and that his death has really taken place. It also requires detailed information as to the cause of death. This evidence is supplied by (*a*) certificates from the doctor and an independent friend who can establish his identity, and (*b*) by the production of the death certificate. The Company must also be satisfied that the claimant is really entitled to the

policy moneys. This will be proved by the production of Probate, or Letters of Administration of the estate of the deceased, or, if the policy has been assigned, by the production of the documents which form the legal title It has already been remarked that the Assured's age must always be proved before the policy moneys are paid.

THE ASSURANCE COMPANIES ACT, 1909.

In addition to being subject to the provisions of the *Companies Act*, 1929, in so far as that Act is relevant, Assurance Companies are governed by the *Assurance Companies Act*, 1909, which received the Royal Assent on December 3, 1909, and came into force (with the exception of S 36) on July 1, 1910. The Act of 1909 repealed the *Life Assurance Companies Acts*, 1870 *to* 1872; the *Employers' Liability Insurance Companies Act*, 1907; S. 7 of the *Trade Union Act Amendment Act*, 1876; and consolidated, amended and extended the law relating to Assurance Companies. The schedules appended to the Act provide new forms for the presentation of Assurance Companies' accounts.

From the accountant's point of view, the following are the most important provisions of the Act:—

(1) *Scope of the Act.*—The Act, with slight exceptions, embraces all persons or corporations transacting—

(*a*) Life Assurance; (*b*) Fire; (*c*) Accident; (*d*) Employers' Liability Insurance; and (*e*) Bond Investment business (S. 1).

(2) *Permanent Deposits Required.*—Every Company transacting Life business must now place with the Paymaster-General of the Supreme Court a permanent deposit of £20,000. This deposit was formerly necessary under the Act of 1870, but it was returnable to the Company when the Life fund, accumulated out of profits, reached the sum of £40,000. In addition to the above, all *new* Companies, registered after July 1, 1910, must deposit £20,000 for each of the other kinds of business conducted by them, (*a*) to (*e*) above. There are a few exceptions to this rule, e.g. where associations of employers undertake employers' liability on mutual terms (S. 2), or where a Company carried on employers' liability insurance prior to August 28, 1907 [S. 33 (*d*)]. When the separate employers' liability fund has reached £40,000, the Company may, if a deposit has been made in respect of any other kind of business, claim the return of the deposit. Similar regulations apply to Companies transacting Bond Investment insurance, but the provisions as to deposits do not apply to Fire, Accident or Bond Investment business carried on by Companies formed prior to the passing of the Act.

When complying with the regulations as to deposits, permission is asked of the Board of Trade to lodge specified securities to the requisite value at the mean market price of the day. These securities must appear in the Board of Trade list of securities. If satisfied on these points, the Board issues a warrant to the Paymaster-General authorising him to accept the securities.

Stocks inscribed at the Bank of England are simply handed in; but registered stocks must be transferred, in the usual way, to the Paymaster-General, and, since there is no consideration for the transfer, a 10s stamp is sufficient. Lastly, an order of the Court is obtained authorising the Paymaster-General to pay the dividends received upon the securities to the depositing Company.

(3) *Separate Revenue Accounts*.—Every Company must now present separate Revenue Accounts for each class of business engaged in by the Company, and for each class of business a separate fund must be kept. Each separate fund is the absolute property of the policy holders of that class, and must not be appropriated to any of the Company's other contracts (S. 3). Although, under the terms of this section, the various assurance funds must be shown as separate liabilities, it is not necessary specially to earmark a Company's investments as being the property of any particular fund.

The allocation of the receipts between the various classes of business does not present much difficulty, since the premiums of each class are known, and the interest earned by the aggregate assurance fund can be divided proportionally to the amounts of the separate funds. But the disclosing of the amount of the Income Tax deducted from the income earned calls for special provision in the books for its record.

The allocation of the expenditure of an Assurance Company is not so simple. Such items as "claims paid," "surrenders" and "commission" offer little difficulty, but there are many payments included in the item "expenses" which can only be arbitrarily allocated amongst the various branches Such items, for instance, as rent, rates, valuation expenses, lighting, stationery, depreciation, and, to some extent, salaries, can only be apportioned by means of estimates. These estimates are prepared by the Company's staff, and could be manipulated in order to bolster up unsatisfactory departments, the more easily because the Fourth Schedule does not require the liability of each branch, when ascertained by valuation, to be set out separately

It is interesting from the professional accountant's point of view to note that, at valuation dates, a certificate must be given, "signed by the same persons as sign the Balance Sheet," to the effect that, in their belief, the assets set forth in the Balance Sheet are "in the aggregate fully of the value stated therein." On inquiry at the Board of Trade the author's firm were informed that the words "same persons as sign the Balance Sheet" do not in this case include the auditors, an interpretation which will be welcomed by the profession. The auditors must, however, certify that no part of the various funds has been applied directly or indirectly for any purpose other than the service of the particular class to which it relates. In reply to the author's firm, the Board of Trade stated that this regulation does not apply to Companies whose business is confined to life assurance, even though both industrial and ordinary branches are carried on.

(4) *Annual Accounts*.—At the end of each financial year every

Company must prepare (*a*) a *Revenue Account* (First Schedule) for each particular class of business; (*b*) a *Profit and Loss Account* (Second Schedule), except in cases where one class of business only is carried on; and (*c*) a *Balance Sheet* (Third Schedule). These accounts must be printed, and four copies must be deposited with the Board of Trade. If copies are also filed with the Registrar of Companies, the Company is under no obligation to include in its Annual Return a copy of its Balance Sheet. Assurance Companies are subject to audit in accordance with the provisions of the *Companies Act*, 1929.

(5) *Actuarial Valuation.*—Once at least in every five years every Assurance Company must cause an *actuarial valuation* of its position to be made in the forms set out in the Fourth Schedule (S 5). The section imposes no obligation upon a Company to employ any particular basis for valuation purposes; it is considered that the publicity given to the returns, and the fact that they have to be signed by a Fellow of the Institute of Actuaries, or of the Faculty of Actuaries, is sufficient protection to the public against unscrupulous companies. The keynote of the Act appears to be "State what you do, but do what you like."

(6) *Statement of Business.*—Every Assurance Company must present a statement of its business in the prescribed form (Fifth Schedule) at the date upon which the accounts are made up for the *Quinquennial Valuation* (S. 6).

All the accounts and statements required by the terms of the Act must be deposited with the Board of Trade within six months after the close of the period to which such accounts relate (S. 7). But the Board may, in certain circumstances, grant an extension of time not exceeding three months. Shareholders and policy holders are entitled to copies of the accounts and statements so deposited (S. 8).

The remainder of the Act relates to audit, amalgamation or transfers, winding up, penalties, exemptions, and various other matters not of immediate moment to the book-keeper.

THE REVENUE ACCOUNT [FIRST SCHEDULE (A)].

As was the case under the Act of 1870, the income and expenditure appear upon the reverse sides of the account to those on which the double-entry book-keeper would place them. Seeing that all accrued income and outstanding liabilities are dealt with in the account, it is in no sense a Cash Account But this anomaly does not affect the internal book-keeping. The accounts in the General Ledger, from which the Trial Balance is prepared, are closed into the Revenue Account upon the usual lines, and are only reversed for publication.

As the account is one of revenue, and not of cash only, all such items as affect the income of the year must be dealt with in the account, and all payments or receipts relating to capital must be excluded. In a Cash Account the total amount received and paid in cash would be entered, and no distinction would be drawn as between income and capital. The student is aware that in the

SCHEDULES.

FIRST SCHEDULE.

N.B.—Where marine insurance business or sinking fund or capital redemption insurance business is carried on, the income and expenditure thereof to be stated in like manner in separate accounts. Any additional businesses (including employers' liability insurance business transacted out of the United Kingdom) to be shown in a separate inclusive General Account.

A.—Form Applicable to Life Assurance Business.

Revenue Account of the .... for the Year ending .... in respect of Life Assurance Business.

	Business within the United Kingdom	Business out of the United Kingdom	Total		Business within the United Kingdom	Business out of the United Kingdom	Total.
	£ s. d.	£ s d.	£ s d		£ s. d	£ s. d.	£ s. d.
Amount of life assurance fund at the beginning of the year				Claims under policies paid and outstanding:—			
Premiums				By death			
Consideration for annuities granted				By maturity			
Interest, dividends, and rents .. .. . (£ s d.)				Surrenders, including surrenders of bonus			
Less income tax thereon ..				Annuities			
Other receipts (*accounts to be specified*)				Bonuses in cash			
				Bonuses in reduction of premiums ..			
				Commission			
				Expenses of management			
				Other payments (accounts to be specified)			
				Amount of life assurance fund at the end of the year, as per Third Schedule .			
£				£			

Note 1.—Companies having separate accounts for annuities to return the particulars of their annuity business in a separate statement.
Note 2.—Companies having both Ordinary and Industrial branches to return the particulars of the business in each department separately.
Note 3.—Items in this account to be net amounts after deduction of the amounts paid and received in respect of re-assurances of the Company's risks.
Note 4.—If any sum has been deducted from the expenses of Management Account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

Note 5.—Particulars of the new life assurances effected during the year of account to be appended to the above account showing separately, as respects business within and business out of the United Kingdom, *the number of policies, the total sums assured*, the amount received by way of single premiums, and the amount of the yearly renewal premium income, the items to be net amounts after deduction of the amounts paid and received in respect of re-assurances of the company's risks. The particulars as to yearly renewal premium income need not be furnished in respect of Industrial business.

Note 6.—The columns headed "Business out of the United Kingdom," in the case of companies having their head office in the United Kingdom, apply only to business secured through Branch Offices or Agencies out of the *United Kingdom*.

B.—Form Applicable to Fire Insurance Business.

Revenue Account of the .... for the Year ending .... 19.. in respect of Fire Insurance Business.

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
Amount of fire insurance fund at the beginning of the year:—			Claims under policies paid and outstanding		
Reserve for unexpired risks			Commission		
Additional reserve (if any)			Expenses of management		
Premiums			Contributions to fire brigades		
Interest, dividends, and rents			Other payments (accounts to be specified)		
Less income tax thereon			Amount of fire insurance fund at the end of the year as per Third Schedule:—		
Other receipts (accounts to be specified)			Reserve for unexpired risks being per cent of premium income for the year		
			Additional reserve (if any)		
£			£		

Note 1.—Items in this account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.
Note 2.—If any sum has been deducted from the Expenses of Management Account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above account.

C.—Form Applicable to Accident Insurance Business.

Revenue Account of the .... for the Year ending .... 19 . in respect of Accident Insurance Business.

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
Amount of accident insurance fund at the beginning of the year:—			Payments under policies, including medical and legal expenses in connection therewith		
Reserve for unexpired risks			Commission		
Total estimated liability in respect of outstanding claims			Expenses of management		
Additional reserve (if any)			Other payments (accounts to be specified)		
Premiums			Amount of accident insurance fund at the end of the year as per Third Schedule:—		
Interest, dividends, and rents			Reserve for unexpired risks being per cent of premium income for the year		
Less income tax thereon			Total estimated liability in respect of outstanding claims as per Fourth Schedule (C)		
Other receipts (accounts to be specified)			Additional reserve (if any)		
£			£		

Note 1.—Items in this account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.
Note 2.—If any sum has been deducted from the Expenses of Management Account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above account.

D.—Form Applicable to Employers' Liability Insurance Business.

Revenue Account of the .... for the Year ending .. .. 19.. in respect of Employers' Liability Insurance Business transacted within the United Kingdom.

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
Amount of employers' liability insurance fund at the beginning of the year :—			Payments under policies, including medical and legal expenses in connection therewith		
Reserve for unexpired risks			Commission		
Total estimated liability in respect of outstanding claims			Expenses of management		
Additional reserve (if any)			Other payments (accounts to be specified)		
Premiums			Amount of employers' liability insurance fund at the end of the year, as per Third Schedule :—		
Interest, dividends, and rents			Reserved for unexpired risks, being per cent. of premium income for the year		
Less income tax thereon			Total estimated liability in respect of outstanding claims, as per Fourth Schedule (D)		
Other receipts (accounts to be specified)			Additional reserve (if any)		
	£				£

Note 1.—Items in this account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

Note 2.—If any sum has been deducted from the Expenses of Management Account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above account.

E.—Form Applicable to Bond Investment Business.

Revenue Account of the .... for the Year ending .... 19.. in respect of Bond Investment and Endowment Certificate Business.

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
Amount of Bond Investment and Endowment Certificate Fund at the beginning of the year ..			Claims under bonds and certificates, paid and outstanding ..		
Additional reserve (if any)			Commission		
Premiums			Expenses of management		
Interest, dividends, and rents			Other payments (accounts to be specified)		
Less income tax thereon			Amount of Bond Investment and Endowment Certificate Fund at the end of the year as per Third Schedule		
Other receipts (accounts to be specified)			Additional reserve (if any)		
	£				£

Note 1.—Items in this account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

Note 2.—If any sum has been deducted from the Expenses of Management Account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above account.

THIRD SCHEDULE

Balance Sheet of the . . .. on the .... 19.....

LIABILITIES	£	s.	d.	£	s.	d.
Shareholders' Capital paid up (if any)						
Life Assurance Funds *:—						
Ordinary Branch						
Industrial Branch						
Annuity Fund *						
Fire Insurance Fund						
Accident Insurance Fund						
Employers' Liability Insurance Fund						
Bond Investment and Endowment Certificate Fund						
Marine Insurance Fund						
Sinking Fund and Capital Redemption Fund						
Profit and Loss Account						
Other Funds (if any) to be specified						
Claims admitted or intimated but not paid †:—	£	s.	d.			
Life Assurance						
Fire Insurance						
Bond Investment						
Annuities due and unpaid †						
Other sums owing by the company † (to be stated separately under each class of business).						
£						

ASSETS	£	s.	d.
Mortgages on Property within the United Kingdom			
Mortgages on Property out of the United Kingdom			
Loans on Parochial and other Public Rates			
Loans on Life Interests			
Loans on Reversions			
Loans on Stocks and Shares			
Loans on Company's Policies within their Surrender Values			
Loans on Personal Security			
Investments Deposit with the High Court (Securities to be specified)			
British Government Securities			
Municipal and County Securities, United Kingdom			
Indian and Colonial Government Securities			
Indian and Colonial Provincial Securities			
Indian and Colonial Municipal Securities			
Foreign Government securities			
Foreign Provincial Securities			
Foreign Municipal Securities			
Railway and other Debentures and Debenture Stocks—Home and Foreign			
Railway and other Preference and Guaranteed Stocks			
Railway Ordinary Stocks			
Rent Charges			
Freehold Ground Rents			
Leasehold Ground Rents			
House Property			
Life Interests			
Reversions			
Agents' Balances			
Outstanding Premiums †			
Outstanding Interest, Dividends, and Rents †			
Interest accrued but not payable †			
Bills Receivable			
Cash: On Deposit			
In hand and on Current Account			
Other Assets (to be specified)			
£			

NOTE 1—When part of the assets of the company are specifically deposited, under local laws, in various places out of the United Kingdom, as security to holders of policies there issued, each such place and the amount compulsorily lodged therein must be specified in respect of each class of business, except that, in the case of fire, accident, or employers' liability insurance business, it shall be sufficient to state the fact that a part of the assets has been so deposited

NOTE 2—A Balance Sheet in the above form must be rendered in respect of each separate fund for which separate investments are made.

NOTE 3.—The Balance Sheet must state how the values of the Stock Exchange securities are arrived at, and a certificate must be appended, signed by the same persons as sign the Balance Sheet, to the effect that in their belief the assets set forth in the Balance Sheet are in the aggregate fully of the value stated therein, less any investment reserve fund taken into account In the case of a company transacting life assurance business or bond investment business, this certificate is to be given on the occasions only when a statement respecting valuation under the Fourth Schedule is made

NOTE 4—In the case of a company required to keep separate funds under section 3 of this Act, a certificate must be appended, signed by the same persons as signed the Balance Sheet and by the auditor, to the effect that no part of any such fund has been applied, directly or indirectly, for any purpose other than the class of business to which it is applicable

* Life companies having separate annuity fund to show amount thereof separately

† These items are or have been included in the corresponding items in the First Schedule.

(Letter of Acceptance.)

SIR,

I have the pleasure of informing you that your Proposal for an Insurance with this Company upon .... life.......... .... for the sum of £. .... has been approved by the Directors, and that a Policy for the same will be issued on payment of £......... ...... the amount of Premium mentioned below, which may now be remitted.

You are requested to observe that the Company does not undertake the risk until the Premium be paid; that, until then, the Directors retain the power of declining to complete the transaction; and that, if payment be not made without delay, a new certificate of Health will be required

Yours truly,

Manager.

Premium (with ...... *Profits*) £............

NOTE.—Proof of age should be furnished *at the time when the Policy is effected*, such being required before payment of a Claim.

SECOND SCHEDULE.

PROFIT AND LOSS ACCOUNT OF THE .... FOR THE YEAR ENDING .... 19..

	£	s	d.	£	s.	d.		£	s.	d.
Balance of last year's account							Dividends and bonuses to shareholders..			
Interest and dividends not carried to other accounts							Expenses not charged to other accounts			
Less income tax thereon							Loss realised (accounts to be specified)..			
Profit realised (accounts to be specified)							Other payments (accounts to be specified)			
Other receipts (accounts to be specified)							Balance as per Third Schedule			
£							£			

Revenue Account all moneys which became due during the year should appear, whether they have been actually received or not, and that, on the other hand, all moneys which became payable by the Company should be included under their respective headings. For example, if a premium fell due on December 31, 19.., but was not paid on that day, it would be included in the item "Premiums" on the left-hand side of the Revenue Account, and also, properly, the commission on such premium would be provided for in the appropriate place. The item would also appear in the Balance Sheet amongst the assets under the heading "Premiums Outstanding."

Dealing first with the Receipts (debit) side of the account, we find :—

(1) **Amount of Life Assurance Fund at the Beginning of the Year.**—This item is the closing entry of the Revenue Account of the previous year, from which it has been brought forward. It represents the difference between the Company's assets and its liabilities, including reserves, apart, of course, from the liability to its policy holders, which, as has already been explained, can only be ascertained by actuarial valuation. In other words, the Life Assurance Fund represents the amount which is available to meet the Company's liability under its policies.

When the income and expenditure applicable to the year have been dealt with in the manner provided by the Schedule, a fresh Life Assurance Fund is arrived at, which forms the balance of the Revenue Account. In due course this balance appears in the Balance Sheet, where the assets representing the Fund are set forth in detail, and forms the first item in the Revenue Account for the ensuing year.

(2) **Premiums.**—The risk which an assurance company will undertake upon any one life is restricted in amount. The amount retained varies with the nature of the risk and the financial circumstances of the assuring Company, but in most large Life Offices the limit is £10,000 to £20,000, while in a very young office the limit may be as low as £500 In some cases, therefore, it becomes necessary for a portion of the risks to be *re-assured* * with other offices. The First Schedule of the Act stipulates that all receipts must be stated *net.* Premiums paid to other offices for re-assurances must, therefore, be deducted from the gross premium income of the Company.

The item "Premiums" appearing in the Revenue Account includes all premiums due but outstanding at the close of the

* Re-assurances are probably more numerous in the case of fire risks than in other departments. For example, the "A" Company accepts a risk covering £5,000. As its "limit" for this class of risk is £3,000, the remaining £2,000 is re-insured with the "B" Company. The latter Company issues a "guarantee" that it accepts liability, in the event of a claim arising, for the same proportion of the claim actually paid as the amount re-insured with it bears to the amount of the policy.

year, excluding, of course, the premiums on such policies as may have *lapsed* during the year. It has already been stated that policies of life assurance become lapsed, or void, as a general rule when the premiums due thereon are more than thirty days in arrear.* In most Companies, however, the Assured has the right to revive the policy within a year from the date when the unpaid premium fell due, on payment of interest—often termed a "fine"—on the amount. Moreover, in practice, if the Life Assured is still in good health, revival is often allowed as a matter of grace after an even longer period.

In "Industrial" assurance, under the *Friendly Societies Act*, 1875, it is essential to send notice to policy holders prior to lapsing their policies. The notice is to the effect that the premiums are in arrear and that "in case of the default of payment of the full amount due within sixteen days the policy will be cancelled and the interest and benefit therein forfeited." Care is taken by Industrial Assurance Companies that they may be in a position to prove the postage of this notice in case of need. All notices are therefore numbered and duplicated, and the numbers are recorded and initialled in the postage book. In "Ordinary" branch assurance no notice of intention to lapse is legally necessary, but as a matter of practice a renewal notice is invariably sent as a reminder.

In addition to outstanding premiums, there will, in some cases, be included in the total premiums taken into account the full premiums due upon policies issued under the *half credit system*. Under this system one half only of the premium is payable in cash, the other half is treated as a loan on the policy, and appears, of course, amongst the assets in the Balance Sheet, the *full* premium being taken credit for as income due in the year.

A large proportion of the premium income of an Assurance Company reaches it through agents, who, as a general rule, deduct the commission due to them on the premiums and remit the balance. Consequently, in most cases, remittances from agents represent *net* figures, and adjusting Journal entries are necessary to arrive at the gross premiums collected and the amount of the commission and expenses that have been deducted Journal entries are also necessary to bring the amount of the outstanding premiums into the books at the close of the year

The practice of Assurance Companies differs somewhat with regard to outstanding premiums. Some Companies deal only with such premiums as are actually payable within the financial period covered by the accounts; other Companies include the balance of the annual premiums, where such premiums are payable by half-yearly or quarterly instalments. In the first of these two cases the premiums are actually payable quarterly or half-yearly and only such amounts as fell due before a claim arises are payable

* In fire insurance fifteen "days of grace" are usually allowed, and in other departments from seven to fourteen days of grace are allowed according to custom. There are no days of grace on a Workman's Compensation Policy.

by the Assured. In the second case the premiums are payable by quarterly or half-yearly instalments, and any instalments of the year's premium remaining unpaid at the date of death are deducted from the sum assured. Such unpaid instalments are really an asset, and as such are properly included in the Funds at the end of the year and amongst the premiums for the year.

When assessing the value of outstanding premiums as an asset in the Balance Sheet, the student should remember that, as already explained, there is a reserve for valuation purposes on every policy, representing the liability of the Company at the date of the valuation. This reserve liability almost invariably represents a larger sum than the outstanding premium treated as an asset. For example, John Smith took out a policy for £500 payable at death. The Company's liability on this policy was valued at £75 at the date of the last valuation, and was duly reserved for. The outstanding premium is taken credit for at £14. The amount treated as an asset is therefore well secured, because, were the policy to lapse by non-payment, the reserve liability would be released, while should a claim arise the unpaid premium would be deducted from the amount of the claim. Some Companies quote yearly premiums payable in quarterly instalments, whilst others quote quarterly premiums. In the latter case, provided the last quarterly premium had been paid, nothing would be outstanding.

When the examination candidate is required to prepare a set of accounts from the Trial Balance of an Assurance Company, he should remember that the item "Outstanding Premiums" has already been included in the "Premiums," and therefore it only needs to be scheduled in its proper place amongst the assets in the Balance Sheet.

There are other points of minor importance affecting the item "Premiums," but enough has been said to show that the figure entered in the Revenue Account should be the *true net figure* representing the premium income of the Company for the year, after providing for outstandings and after deducting lapses, re-assurances and premiums belonging to other periods.

The First Schedule of the Act of 1909 makes no provision in the body of the account itself for separating the premium income as between new and old business, but *Note S* indicates that this information must be supplied. Where under the old Act this desirable analysis has been made by Assurance Companies, no objection to the amendment appears to have been made by the Board of Trade. This information is usually added as a footnote to the Revenue Account. The student must bear in mind that the amount given as the premiums under new business is usually the total amount of a year's premium under each new policy. Some part of these new premiums will fall due outside the current year of account, and thus may not be included in the item "Premiums" in the Revenue Account. In a very young Company it may happen that the Premiums under new business will exceed the total Premium Income shown in the Revenue Account.

(3) **Considerations for Annuities Granted.**—The word "annuity," in addition to its literal meaning, an annual payment, is also used to denote the investment of a sum of money to yield an agreed amount at fixed periods. Some particulars of various kinds of annuities have been given in the Compendium of *Book-keeping and Accounts* The heading provided in the First Schedule is for the amounts received by the Company from persons who have purchased annuities during the year.

It would appear from the notes appended to the First and Third Schedules that the maintenance of a separate Annuity Fund is optional, though the tenor of these notes seems to be somewhat in opposition to the provisions of S. 3 of the Act. Some Companies exhibit separate Annuity Funds, whilst others do not specify the separate liability for annuities granted, the liability being merged in the Life Assurance Fund. It is to be regretted that the Act does not impose uniformity of practice in this connection. Annuities are, as a general rule, purchased by the payment of a sum down. but *contingent or deferred annuities*, purchased by annual payments over a certain period, are also granted. Some Companies treat these payments under the head of "Premiums," and this is apparently the most suitable course

(4) **Interest, Dividends, and Rents.**—This heading embraces the yearly income of the Company derived from interest and dividends on its investments and the rents of its freehold and leasehold properties. It also includes interest payable on loans on the Company's policies, on reversions, and other secured loans. As was explained in the case of Premiums, the item should include all the income from these sources applicable to the year. Some portion of this income, although payable within the year, will be outstanding, and must be brought into account by means of Journal entries. Items will also exist which, although not payable within the period, have, to an extent, *accrued* during the year. For instance, debenture interest payable on September 30th and March 31st will have accrued for three months on December 31st, and, to this extent, may be brought into account. Formerly great diversity of practice existed amongst Companies in regard to the treatment of interest accrued but not yet payable. Under the 1909 Act, however, all "interest accrued but not yet payable" must be stated in the Balance Sheet, and must also be included in the Interest shown in the Revenue Account.

In the case of Stock Exchange securities, if these are valued at the current market prices, the latter will usually include an allowance for accrued interest, and hence no further allowance will be made in the accounts. Strictly speaking, there appears to be no doubt that, in the case of such securities, a suitable adjustment should be made in the current price and the accrued interest included in the item "Interest," but the author is under the impression that this somewhat fastidious course is seldom followed.

The student will note that the First Schedule requires the total amount of Income Tax payable on the income for the year

to be set out so that the net income may be shown **Prior** to the 1909 Act some Companies stated their income gross, and included the tax as a payment on the expenditure side of the Revenue Account, while others showed their net income but did not disclose the amount of the Income Tax that had been deducted. The new regulation brings all Companies into line in this respect.

The rents taken into account should be the net rents received after paying all outgoings, such as rates, taxes, repairs, etc. In cases where the Company owns and occupies its own premises it is usual to charge a fixed rent as income under this heading, a similar amount being charged under the appropriate head on the expenditure side of the account.

The student will have gathered from the preceding pages that the amount of interest earned by an Assurance Company upon its funds is a factor of paramount importance in the policy of the Company. A responsible part of the duties of the management is the selection of investments yielding as large a return as is compatible with the security of the Capital. Reference has already been made to the importance which the rate of interest earned assumes when the quinquennial valuation is in progress, and in the compilation of the Company's tables of rates. The average rate of interest yielded by the assets constituting the Life Assurance Fund of the Company during each year of the previous quinquennium must be disclosed in the valuation returns required by the 1909 Act.

In order to arrive at the strict rate of interest earned, algebraic knowledge is necessary, but it can be obtained simply, and with approximate accuracy, as follows:—

Illustration.

	£
Funds at commencement of year	250,000
Funds at end of year	300,000
	£550,000
Less Interest earned during the period	10,500
	£539,500

$$\text{Rate of interest earned} = \frac{10{,}500 \times 2}{539{,}500} = £0 \cdot 038925$$
$$(\text{multiplying by } 100) = £3\ 17s.\ 10d.\ \%\ ^*$$

(5) **Other Receipts.**—The wording of the First Schedule indicates that all receipts other than those included in the preceding headings must be separately specified. Fines collected for the

* The student may like to have the actuarial formula. If A is the Life Fund at the beginning of the year, B its amount at the end of the year, and I the year's interest, then $\frac{2\text{I}}{\text{A} + \text{B} - \text{I}}$ = average rate of Interest earned.

revival of lapsed policies, or fees * received, or profits made by the Company will come under this head. Profits realised on the sale of investments will be included unless they are taken direct to the Reserve Account. As these profits, in the case of an Assurance Company, are capital profits, it is more satisfactory to carry them to Reserve.

Turning now to the expenditure (credit) side of the First Schedule, we have :—

(1) **Claims.**—This item should include all claims actually paid during the year and all claims admitted during the year There must always be claims outstanding at the date on which the accounts are closed, e.g. where the title of the claimant and the legal proof of death are still under investigation. All bonuses and other benefits attached to the policies must also be reserved for. It is the practice of many companies to bring into account all claims of which they have been advised prior to the close of the year. Theoretically this is sound, but it has drawbacks, and results in some cases in the over-statement of claims. Outstanding claims are brought into the books by means of Journal entries, and appear in the Balance Sheet as liabilities.

The First Schedule requires the division of claims under two headings: (*a*) *Death*, and (*b*) *Maturity*. The former refers to claims paid on the death of the Life Assured, the latter to Endowment policies, which secure the payment of an agreed sum on the attainment of a specified age, or at previous death.

(2) **Surrenders.**—This item consists of the amounts paid to policy holders who have given up, or "surrendered," their policies either because they did not desire, or were unable, to continue their contracts. Where policies are issued on the half credit system, the unpaid portions of the premiums are treated as loans, as previously explained, and loans are also frequently granted on security of the surrender values of policies. In such cases, if the policy lapses, or is surrendered by the Assured, the full amount of the surrender value is included in the Revenue Account, and the loan is treated as having been repaid. It is obvious that in such circumstances the full surrender value has been paid away, one portion to the Company itself in repayment of the loan, and the remainder to the Assured

There is, of course, no actual loss in these cases, as the amounts advanced are always within the surrender values of the policies. The amounts paid for the surrender value of bonuses, as well as for the surrender value of the "bare" policies, must also be included, but the items need not be separated.

In the case of Endowment Assurances, the amount due is sometimes paid a short time before the actual date of maturity under discount. In such cases the transaction is usually treated as a Surrender, and not as payment of a Claim.

(3) **Annuities.**—These are the payments made during the year in fulfilment of the Company's annuity contracts, the consideration for which was dealt with on the other side of the Revenue Account.

* Fees received for the transfer of shares, or for the registration of assignments, or other documents.

The item must, of course, include all annuities due but not paid. The great majority of annuities are payable half-yearly, though other terms of payment are arranged to suit the convenience of Annuitants. Income Tax is deducted from all annuities before payment, except where exemption forms have been lodged by Annuitants with the Company. In such cases the annuity is paid in full, or tax is deducted at half-rate, as appropriate.

(4) **Bonuses in Cash.**—It has already been stated that when a bonus has been declared, the policy holder has usually the option of (1) allowing his share of the bonus to accumulate until his policy becomes a claim, then called a reversionary bonus, or (2) immediately drawing in cash a sum somewhat smaller than his share, or (3) having the bonus applied to the reduction of future premiums. The above heading apparently provides for such bonuses as have been drawn in cash during the year, although it would be more consistent to include this amount with the Surrenders, and to confine the above heading to Bonuses declared and paid in cash

(5) **Bonuses in Reduction of Premium.**—The full premiums payable under these policies are included on the income side of the Revenue Account, and those portions of the premiums credited as paid, in lieu of bonus, are set out under this heading. Under the Act of 1870 no provision was made for the separation of this and the preceding item, and although the 1909 Act effects a slight improvement, diversity of practice still exists in the method of treating them

(6) **Commission.**—This heading embraces all sums paid by a Company to agents and others as remuneration for obtaining business. An *overriding commission* is sometimes paid to district agents on the business introduced by the agents in the districts they control. Commission due on all outstanding premiums taken into account must be provided for.

The commission paid to agents on ordinary life business varies generally from £1 to 30s. % of the sum assured on new business and 2½ to 5 % on the renewal premiums collected. An older system, which is still sometimes used, was to allow 10 % to 20 % on the first premium and 2½ % to 5 % on renewals. In some cases a single commission, called a *flat* or *commuted commission*, is paid on the first premium, ranging from 30s. to 40s. % on the sum assured, no commission being paid on renewals. In Industrial assurance the agents' commission is usually reckoned at so many times the amount of the premium. For example, in the case of a weekly premium of 1d. the commission would be 1s. 2d., or fourteen times the premium. The commission paid to agents introducing annuity business usually amounts to 1 % on the purchase price of the annuity.

(7) **Expenses of Management.**—Under this head appear the administration expenses incurred in carrying on the business, e.g. rent, rates, taxes, salaries, advertising, law costs, medical fees, depreciation of furniture, etc. In accordance with general commercial practice, separate Ledger accounts are kept for the

chief kinds of expense, including the usual "Profit and Loss" items, and at the end of the year these various expense accounts are closed into a General Account under the above heading. No details of this heavy item are required by the terms of the Act, but hitherto it has been the practice of many Companies to show, in an inner column, some of the chief details composing the total. All expenditure held in suspense as an asset in the Balance Sheet, e.g. Development Expenses in the case of a new company, must be separately set out in the Revenue Account (see Note 4, First Schedule)

(8) **Other Payments.**—The items included under this heading must be separately stated, the designation "Sundries" being inadmissible. Appropriate payments for inclusion are dividends and bonuses paid to shareholders, depreciation on investments, transfers to reserve fund, bad debts, etc

(9) **Amount of Life Assurance Fund at the End of the Year.**—This item forms the "balance" of the account, and appears again in the Balance Sheet as representing the surplus of the Company's assets over its liabilities. As already explained, this balance forms the starting item of the Revenue Account for the next period. Students appear to be confused because the "Amount of Funds at the end of the year" is sometimes omitted in examination questions. In such cases prepare the Revenue Account in the ordinary way; the balance disclosed is the amount of the "funds at the end of the year" to be included in the Balance Sheet.

FORMS (B), (C), (D), AND (E), FIRST SCHEDULE.

These forms of Revenue Account apply respectively to Fire, Accident, Employers' Liability, and Bond Investment Insurance. They are almost identical with Form (A), already explained in detail. The alterations are few and unimportant, and the only point to which attention need be called is the provision, on the credit side of the various forms, for the creation as a percentage of the premium income of a Reserve for unexpired risks This Reserve and the additional reserve (if any) together make up the "Fund."

As the premiums on insurance policies are paid in advance, it is clear that, at any given date, some policies will be in force the premiums on which have been paid for a period that extends beyond the year dealt with in the current accounts. In consequence of these unexpired risks, the whole of the premium income has not been earned at the closing date. There are various methods of estimating the amount which should be reserved under this head. In any case the estimate can only be approximate, and should be based as far as possible upon past experience of the particular risks covered by the premium income.

The general practice of the leading insurance companies is to reserve as follows.—

Fire: 40 % of the premium income. This is usually recognised as the minimum reserve necessary.

Accident: 40 % of the net premium income after deducting re-assurances.

Employers' Liability: 40 % of the net premium income, care being taken that adequate allowance is made for outstanding claims, as, in some cases, annuities may be payable for long periods.

An additional reserve of 15 % of the premium income is commonly provided in order to meet contingencies.

PROFIT AND LOSS ACCOUNT (SECOND SCHEDULE).

This form applies only to Companies carrying on more than one class of business.

As already explained, the profit or loss upon life assurance business can only be ascertained by actuarial valuation. This schedule provides for the combination of the profits or losses made upon classes of business other than life assurance. Any other income applicable to the combined business, and not to a special department, is recorded in this account. On the other side of the statement payments and expenses not chargeable to any particular department are set out. The Schedule practically takes the place of the Net Profit and Loss Account of an ordinary trading concern.

BALANCE SHEET (THIRD SCHEDULE).

Dealing first with the liabilities side of the Balance Sheet, the student will note that the Shareholder's Capital, the balances of the various Funds (First Schedule), and of the Profit and Loss Account (Second Schedule) are entered "short" and the total extended. This total including Reserves, if any, is of course equal to the surplus of the Company's assets over its liabilities.

(1) **Shareholders' Capital.**—This represents the amount paid up on the Company's shares. No capital will, of course, appear in the case of mutual companies. If shares have been issued at a premium, the amount of such premium should be set out as a separate fund, or included in the Reserve Fund.

(2) **Assurance and Insurance Funds.**—The next items set out in the Schedule represent the various departmental funds as shown in their respective Revenue Accounts. It is important that the student should remember that these various funds are not liabilities in the ordinary book-keeping sense, but represent amounts available to meet the liabilities of each department when ascertained by valuation.

(3) **Annuity Fund.**—This item represents the company's liability to its Annuitants as disclosed by valuation. The student will note that the necessity for the separate statement of this fund appears to be doubtful. In some cases the liability is merged in the Life Assurance Fund.

(4) **Sinking Fund and Capital Redemption Fund.**—These items represent the Company's liability on "Sinking Fund Policies," sometimes known as "Capital" or "Leasehold Redemption Policies." Under these policies the Company contracts to pay, in consideration of an annual premium, a fixed sum at a stated future date. These policies involve no life risk; they represent the simple accumulation of premiums at compound interest (usually 3 %) and are commonly used to repay debentures or to replace wasting assets, e.g. leaseholds. These policies have been more fully dealt with under the heading "Sinking Funds" at pp. 89–90.

(5) **Profit and Loss Account.**—This is the credit balance of the Profit and Loss Account (Second Schedule) in cases where such an account is necessary.

(6) **Other Funds.**—This heading embraces such items as Investment Reserve Funds now maintained by the majority of the leading Companies. Other items which cannot be included under any of the preceding headings must be set out separately.

The total of the above headings is now extended in the second cash column, and forms the total of the Funds at the end of the year, as shown in the Revenue Accounts, etc., and represents the excess of the assets over the liabilities

(7) and (8) **Claims Admitted but not Paid.**—This item, and also the following item, *Annuities due but not paid*, was explained when the Revenue Account was dealt with. They represent the liability for the accrued outstandings taken into account when preparing the First Schedule

(9) **Other Sums Owing by the Company.**—If any liabilities exist which are not covered by any of the preceding headings, they must be separately set out under the above designation. Loans, Bank overdrafts, Income paid in advance (premiums or interest) are illustrations of such items. Small sums outstanding for commission due to agents, debts due to tradesmen, and so on, would be included as "Sundry Creditors."

Turning now to the assets side of the Balance Sheet, the first thing that will strike the student is that the Third Schedule of the 1909 Act calls for a fairly detailed and close analysis of the Company's mortgages, loans and investments

(1) **Mortgages.**—Distinction must be made between loans on mortgage "within" and those "without" the United Kingdom.

(2) **Loans.**—*Loans on Rates* are loans advanced to various local authorities on the security of the rates. They are usually repayable by a number of equal half-yearly instalments, and differ from an ordinary mortgage in that they are commonly for a fixed term and cannot be called in. *Loans on Life Interests* and *Loans on Reversions* These are loans secured by reversions, under will or deed, to property or investments on the death of the tenant for life. If the reversion is contingent and not absolute, a life policy covering the contingent life is required. *Loans on Stocks and Shares* are loans secured by the deposit or transfer of

scrip representing sound investments. *Loans on the Company's Policies.* In many cases these form the largest loan business of the Company. They are covered by the deposit of the policies and an equitable charge upon them in the Company's favour. Assurance Companies greatly esteem these loans, which are always within the surrender value of the policies.* *Loans on Personal Security.* Such loans are practically confined to offices with a legal connection, whose clients are doubtless able to offer advantageous business under this head.

(3) **Investments.**—Most of the details required need no comment, but a few notes on some of the headings may be useful. *Deposit with the High Court.* These are securities representing the Company's compulsory deposit (see p. 849). No certificate of incorporation is obtainable by new companies until the required deposit has been made. *Rent Charges.* These are loans raised under the Lands Improvement Act upon the security of property, and are usually repayable by instalments upon the annuity system. *Freehold Ground Rents* are largely purchased by Insurance Companies, and combine present income with reversionary benefits. In some cases the annual ground rent may not afford a high rate of interest upon the investment, but when the property "falls in" upon the expiration of the lease the addition to the Company's assets and income is frequently considerable. *Agents' Balances*, i e. premiums collected by agents but not yet remitted to the Head Office. When bringing these figures into the accounts allowance must be made for all commission due to agents and for possible bad debts. *Other Assets* would include such items as Furniture and Fixtures, Stock of Stationery, Policy Stamps, Preliminary Expenses, etc.

The student should carefully study the notes appended to the Balance Sheet. The more important of these notes are: *Note* 2, which calls for a Balance Sheet in respect of each separate fund for which separate investments are made; *Note* 3, containing regulations that the Balance Sheet must state the basis on which the Company's Stock Exchange securities have been valued, and that a certificate "signed by the same persons as sign the Balance Sheet" must be appended to the effect that the assets are in the aggregate fully of the value stated in the Balance Sheet; and *Note* 4, requiring the auditors to sign the certificate certifying that no part of any fund has been utilised for any purpose other than the class of business to which it applies (see p. 850).

Referring again to *Note* 3, the words "the same persons as sign the Balance Sheet" do not include the auditors, but refer to the directors and other officials only, whose certificate must be appended to the Balance Sheet annually. In this connection it may be interesting to quote the certificate appended to the Balance Sheet of the Prudential Assurance Company, Ltd., which is as follows:—

"The values of Stock Exchange securities are determined

* Sometimes loans are advanced on the policies of other Companies.

under the Articles of Association of the Company by the Directors. Due allowance has been made for accrued interest and the book value of these securities as set forth in the Balance Sheet stands considerably below cost price. A careful investigation as to the actual saleable value on December 31, 19.., compared with the book value, shows that the Investments Reserve Fund is much more than sufficient to meet any depreciation of the permanent securities. Terminable securities have been valued on a basis which, with Sinking Funds already established, provides for the equalisation of the book values and the redemption values at the date of maturity.

"We certify that in our belief the Assets set forth in the Balance Sheet (having regard to the standards indicated) are in the aggregate fully of the value stated therein less the Investments Reserve Fund taken into account, and make ample provision for all the Liabilities of the Company."

The practice of raising Sinking Funds in connection with terminable securities has been referred to under the heading Sinking Funds (see p. 83).

The main object of the requirements of the Act of 1909 appears to be to bring the various insurance companies into line in the statement of their accounts, so that comparison can be made between them. The present forms are in some respects an improvement upon those of 1870, but it is doubtful whether the Assurance Companies have not placed as many different interpretations upon the headings in the new schedules as they did upon those in the old.

VALUATION FORMS (FOURTH AND FIFTH SCHEDULES).

The Fourth Schedule gives the basis of valuation, and the Fifth Schedule the forms which apply to the valuations necessary under S. 5. The form of the Valuation Balance Sheet applicable to Life Assurance (Fourth Schedule) is given at p. 837.

BOOKS OF ACCOUNT.

The business of an Assurance Company is practically a cash business, and the efficiency of a set of books used by an Assurance Company is to be judged by the skill with which provision is made for the tabulation of the receipts and payments in accordance with the needs of the particular Company. Columnar Cash Books and Journals are eminently suitable for assurance work and are largely used, the character, capacity, and number of the books employed depending upon the objects, requirements, and magnitude of the business. But seeing that the final accounts must be presented in the statutory form, it is clear that the books of account must also be designed to afford the information necessary to compile these statutory accounts with the least possible trouble. The scheme here outlined is applicable mainly to Ordinary assurance. Industrial assurance, entailing the collection of an enormous number of small weekly and monthly premiums, requires

special treatment. Companies undertaking industrial assurance are few in number, and the necessary amplifications in the system of book-keeping employed, although very interesting, are too numerous to be dealt with in this book. In any case, the examination candidate would not be expected to possess knowledge of a highly specialised system of book-keeping, although it involves no divergence from the general principles of accounting.

From an accountant's point of view, the theory of the book-keeping employed in an Assurance Office is simple enough. The student will see, since the books must present the transactions in the form required by the Board of Trade Returns, that accounts must be opened in the Ledger for each of the items mentioned in the Revenue Account, the form of which is shown at p 852, a separate account being required for the Life Assurance Fund. Various Cash Books will be required, and a Journal, or Journals, for convenience in posting. Thus, reduced to its simplest form, the book-keeping system will consist of these books and some seventeen or eighteen Ledger accounts in the usual form. *Theoretically* speaking, there is no reason why these Ledger accounts should not suffice, each individual item being posted to its appropriate Ledger account

In practice, however, this is impossible, since many thousands of small items have to be collected and posted to the proper accounts from the books of record, which, in their turn, must be kept up to date from the books of account. For example, the "Premiums Account" in the Ledger for a single year may contain entries relating to seventy or eighty thousand payments. The student will realise, therefore, that a large number of subsidiary books will be required for the collection of the individual items, in order that they may be marshalled according to their kind and debited in totals to the proper account as they become payable. For this reason, the systems to be found in practice are somewhat complicated, and since many systems can be devised to meet the requirements, it is not surprising that no two offices employ the same methods.

Broadly speaking, the books of account may be divided into two classes, viz. (1) books which contain the record of transactions that affect the Life Fund only, and (2) books which contain the record of transactions affecting the revenue or expenditure of the office. The former class of transactions does not affect the income or expenditure of the office, and, while the transactions increase or diminish some of the items of which the Life Fund is composed, they do not affect the amount of the Fund.

Ledgers.—Dealing first with the "Life Assurance Fund," which, as already stated, requires a separate Ledger account, the Balance Sheet at p. 855 shows that the assets composing the fund require to be classified in a particular way. A separate Ledger account will probably be opened for each individual asset. In large offices separate Ledgers are kept for different classes of assets, and these provide the totals necessary for the Balance Sheet headings. In any case, assets will probably be grouped

in their respective classes in the General Ledger, in order that the information required for the statutory accounts may be readily forthcoming.

The Ledger accounts for the second class of transactions, Class (2) above, are subdivided on similar lines, and form a *Revenue Ledger*, containing all the debit and credit accounts necessary for the construction of the First Schedule. Each account is often subdivided, e.g. the "Expenses of Management" Account is divided into several sections, one for each of the main items which comprise the total. At the end of the year these accounts are closed into the main account. The *General Ledger*, as in the case of banks, contains the "total" accounts representing each separate supplementary Ledger, or set of Ledgers, so that a Trial Balance can be easily extracted at any time. The entries appearing in the General Ledger afford the information necessary for the preparation of the Revenue Account and Balance Sheet in the First and Third Schedules. The detailed balances of the supplementary Ledgers, which should be "self-balancing," must, of course, agree with their respective "total" account in the General Ledger.

Cash Books.—The great majority of assurance companies keep separate Cash Books for receipts and payments. The analysis columns required are so numerous that space for them cannot conveniently be afforded in a single book.

Receipts Cash Book —A ruling commonly employed for this purpose is given at p. 871. The columns provided can be increased or diminished to meet particular needs. The Cash Book is kept and posted on lines common to all columnar Cash Books. Folio columns are provided for items which must be posted separately, such as capital receipts and payments. The columns headed "Month" and "Number of Policy" are inserted for convenience of reference, every policy being identified by an official number and the month in which the premium falls due. In some large Companies the Receipts Cash Book is subdivided into a number of Cash Books, for example, *Head Office Premiums Cash Book*, *Agency Remittances Cash Book*, *Loans Cash Book*, *Rents Cash Book*, and so on. In cases where a number of subsidiary Cash Books are employed, all receipts not applicable to one or other of the sub-Cash Books will be grouped and analysed in a *General Cash Book*. Usually the daily, or weekly, totals of the sub-Cash Books are carried to appropriate columns in this Cash Book. In any case the books must be so designed that the total receipts of all classes and from all sources are conveniently marshalled for posting purposes.

Expenditure Cash Book.—A common form is illustrated at p. 871. In many cases a number of subsidiary Cash Books are employed, the totals, daily or weekly, of these Cash Books being brought into the "Main" or "General Cash Book." If separate cashiers are entrusted with funds for the service of the subsidiary Cash Books, the "Imprest" system may be usefully adopted. Separate Cash Books are commonly employed for Claims and for each class of assurance, i.e. "Ordinary" and "Industrial."

EXPENDITURE CASH BOOK.

Date.	Particulars.	No of Policy.	Claims.		Surrenders.	Bonuses in Cash.	Annuities		Commission.		Re-assurances	Petty Cash	Expenses of Management	Ledger Folio.	Capital Expenditure.			Other Payments	Total.	Bank
			By Death.	By Maturity.			Net	Income Tax Deducted	New Business	Collecting.					Investments Purchased.	Loans Granted.	Other Capital Payments.			
			£ s d	£ s d	£ s d	£ s d	£ s d.	£ s d	£ s d	£ s d.	£ s d	£ s d.	£ s d		£ s d	£ s. d	£ s d	£ s d	£ s d	£ s d.
													*							

* In cases where the bulk of the expenses of management are recorded in this column the totals entered would be carried to a subsidiary book for detailed analysis.

RECEIPTS CASH BOOK.

Date	Particulars.	Month.	No. of Policy.	Head Office.		Remittances from Branches and Agencies		Re-assurance.	Consideration for Annuities	Income on Investments.						Ledger Folio	Capital Receipts.			Sundry Receipts	Total.	Bank.
				New Premiums.	Renewal Premiums.	New Premiums	Renewal Premiums			Investments.	Income Tax Deducted	Rents	Income Tax Deducted	Interest on Loans.	Income Tax Deducted		Loans Repaid	Investments Sold	Other Capital Receipts			
				£ s d	£ s d	£ s d	£ s d	£ s. d	£ s d	£ s. d	£ s. d	£ s d	£ s d	£ s. d	£ s. d		£ s d	£ s d	£ s d	£ s. d	£ s d	£ s d.

Loans on Policies Cash Book.—In cases where the number of these loans is heavy, they are usually recorded in a separate Cash Book. *Expenses of Management, Surrenders* and *Annuities* are also classes of expenditure for which separate Cash Books are usefully employed in many cases.

Petty Cash Book.—No rulings of this book need be given here, as the principle of its construction is the same as that with which the student is already familiar. In most cases this book is provided with analysis columns for items of expenditure, forming part of the heading "Expenses of Management." Such, for example, as medical fees, policy stamps, salaries, printing, postages, and any other subdivisions of the item for which independent totals are desirable.

The Journal.—The Journal occupies an important place in assurance book-keeping. The student is already aware that the necessary statutory accounts are not cash accounts, but that they embrace all outstanding income and expenditure. At the close of the year it is necessary, therefore, to pass Journal entries through the books for all outstandings, e.g :—

OUTSTANDING PREMIUMS ACCOUNT DR.
TO PREMIUMS ACCOUNT
for premiums outstanding as on December 31, 19...

Outstanding Interest, Rents and similar items of income are treated in like manner through the Journal. So, too, is outstanding expenditure, e.g. :—

CLAIMS ACCOUNT DR.
TO OUTSTANDING CLAIMS ACCOUNT
for claims admitted but not paid as on December 31, 19...

Outstanding surrenders, bonuses, commission, and expenses are similarly treated.

Anyone who has had practical experience of assurance work, especially perhaps in the capacity of auditor, will know that these Journal entries frequently present considerable difficulties, and need careful preparation and investigation to ensure that the figures passed into the accounts are strictly accurate.

The Journal also contains the numerous inter-departmental transfers made from time to time, particularly at the close of the year.

Where a Company's investments are numerous, it is usual to keep an *Interest Journal* showing the interest, gross and net, due on the Company's investments, suitable rulings being provided for the purpose. An *Agents Debit Journal* will also be necessary in which the premiums due each month are marshalled and debited to the agents responsible for their collection. Similarly, an *Agents Credit Journal* is used to collect and arrange all items which need crediting to the agents. Simple forms of these two Journals are given on the opposite page.

AGENTS DEBIT JOURNAL.

Agent.	Town.		Premiums on New Policies			Renewals.			Other Debits			Total			Remarks.
			£	s.	d	£	s	d	£	s	d	£	s.	d	

AGENTS CREDIT JOURNAL.

Agent.	Town.		Lapses			Premiums on New Policies not taken up.			Commission.			Other Credits.			Total.		
			£	s	d	£	s.	d	£	s.	d	£	s	d.	£	s.	d.

Books of Record.—In addition to the books of account described above, the business undertaken by an Assurance Company requires the use of a large number of books of record, such as *Head Office New Premiums Book, Branches New Premiums Book, Renewals Book, Commission Books, Policy Registers, Records of Lapsed and Surrendered Policies*, and a number of statistical books, with detailed information necessary from an actuarial point of view. Although the Company's accountant should be familiar with these books, they are not under his control, and, from the student's point of view, they need no explanation here. Finally, it may be noted that the "card system" is extensively and advantageously employed in assurance book-keeping, particularly where industrial assurance is undertaken.

Subsidiary Books.—Having given a brief account of the main books of account, it may be useful to give a brief example of the process by which the individual items are collected and collated prior to their appearance in the main books. For an example it may be useful to take the case of the renewal premiums payable to an Office. From the Policy Registers, in which full particulars of all policies on the books are recorded in numerical order, details of the renewal premiums falling due in any particular month are entered in a *Renewal Premium Charge Book*, a form of which is given at p. 874.

Space is usually provided in these books for the premiums falling due in ten or more years, in order to avoid the necessity of entirely re-writing the book every year. In a large Office the Renewal Premium Charge Book may be divided into several

sections, for premiums payable through the Head Office, through a Branch, and through an Agent. In the two latter cases the column headed "Agency" may not be required. Frequently also the "addresses" are relegated to a separate book. From some points of view the book is one of record rather than one of account.

From this book the total amount due to the Company in any particular month is obtained, and when the renewal receipts are

RENEWAL PREMIUM CHARGE BOOK.

PREMIUMS FALLING DUE IN MONTH OF ....

Policy No	Life Assured.	Address for Notice.	Due Date.	Agency.	Year 19..				Year 19...			
					Amount.			Date Paid	Amount			Date Paid.
					£	s	d.		£	s.	d	

prepared they are agreed with it. Since it represents a debt due to the office, a renewal receipt is practically the equivalent of cash, and as such the receipts are debited *en bloc* to the proper Ledger account, and must be accounted for either by an entry in the Cash Book, or by the return of the renewal receipt if the premium is not paid. To facilitate this, the receipts are sorted according to the agency through which they are payable, and a Renewal Debit Sheet, as shown below, is prepared for each Agent or Branch.

RENEWAL DEBIT SHEET.

NAME OF AGENT ....

Policy No.	Life Assured.	Due Date.	Amount of Premium.			Date Paid.	Commissions Deducted			Remarks.
			£	s.	d.		£	s.	d.	

A summary of the totals of these sheets is compiled, and must correspond with the totals of the Renewal Premium Charge Book. The sheets are prepared in duplicate, one copy being issued to the agent and the other retained by the office. For book-keeping purposes the Head Office cashier is practically treated as an agent, although in practice a Renewal Debit Sheet is not made out for him.

The total of each sheet is then placed to the debit of the particular agent in the Agents Ledger, a separate account being opened for each agent. The form of the Agents Ledger does not differ materially from an ordinary Ledger Account.

The total amount of premiums falling due in any given month is debited to the Agents' Account in the Main Ledger and credited to Premiums Account in the same Ledger. In this manner a very large number of individual items are condensed into two entries.

In due course the Renewal Debit Sheets are returned to the office with the cash collected, less commission, and the renewal receipts for any premiums which may remain unpaid; and, after a somewhat similar process to that already described, the Agents' Account in the Ledger is credited with the cash paid over, the commission deducted, and the receipts returned. These items are placed to the debit of "Cash," "Commission," and "Premiums" respectively. In practice the process is by no means so simple as may appear from the above description, since many complications are sure to arise.

Other items of income, such as Interest, are dealt with in a very similar manner.

The procedure in connection with the expenditure is rather simpler. In the case of claims, for instance, as soon as a claim is intimated it is entered in a *Claims Intimated Book.* This is to a very great extent a book of record, and the only particulars required for the financial books are the policy number, life assured, date of intimation, and the amount payable. When a claim is paid, similar particulars are entered in a *Claims Paid Book.* These books are totalled periodically, and the totals are transferred to the proper Ledger accounts, the difference between them giving the amount of "Claims outstanding" on any particular date. In accordance with the statutory form of Revenue Account, each Register must be divided into "Claim by Death" and "Claim by Maturity."

Book-keeping Applied to Life Policies.

Life Assurance policies are not often subjected to accurate accounting by those who hold them, except when they are purchased as a mode of investment; but there is no reason why a private person should not keep accurate account of the assurances on his own life.

The basis of the necessary book-keeping is the surrender value of the policy A Ledger account should be opened for each policy, and that portion of the premium which goes to create surrender value should be debited to the Policy Account, the balance of the premium being written off. In this way the valuation of the policy is maintained on a conservative basis; and when the policy becomes a claim, either through death or maturity, a larger sum will usually be received than the amount of the Ledger debit. The difference practically represents the under-valuation of the policy, and as a capital profit it should be transferred to Capital Account. Life offices will inform policy

holders, at any time, what the surrender value of a particular policy is.

The question of surrender value does not arise when dealing with declared bonuses on "with profit" policies. Bonuses taken in cash rank as profits, and may be taken to Profit and Loss Account; bonuses allowed to accumulate till the policy matures should be debited to the Policy Account and credited to Profit and Loss Account.

The office surrender value of Endowment policies will, during the latter years of their existence, approach very closely to the sum assured. This remark applies also to Whole Life policies on aged lives. In both these cases the quoted surrender value forms the basis of the book-keeping, and the total debit on the Policy Account should be raised at intervals to the full surrender value by transfers to Profit and Loss Account

An example of a Life Policy Account is appended (see p. 877).

Illustration.—On January 1, 1921, Dr. Ravary took out a twenty-year with profits Endowment Policy for £1,000 at an annual premium of £53. The Office guaranteed a surrender value of one-third the premiums paid plus the cash value of all bonuses A reversionary bonus of £45 was added to the sum assured at the conclusion of the Company's valuation on December 31, 1923. The cash value of this bonus was £25, but was not drawn. Another reversionary bonus of £75 was declared and added to the policy in 1928 (cash value, £45) Show the Policy Account for the first ten years of the assurance, bringing down the balance at the end of that period.

Policies as Investments.—Policies on the lives of others, purchased as investments by companies dealing in reversions, or by private persons, require different treatment from that outlined above. The policies have to be maintained till maturity, and are treated purely as investments. The cost of each policy should be debited to an Investment Account, and the full amount of the premium paid should be added to the cost. It is permissible also to debit the account, year by year, with compound interest at the rate expected to be ultimately realised on the transaction. Any bonuses taken in cash should be credited to the Investment Account. The ultimate profit or loss disclosed on the investment when the policy matures should either be transferred to "Profit and Loss on Reversions (or Policies) Account," or direct to the general Profit and Loss Account.

The policies could periodically be actuarially valued, if a sufficient number are held to allow the application of mortality tables, and it might then be permissible to take credit in the Profit and Loss Account for a small part of the estimated profit. But this cannot be done if the policies are in number insufficient to afford scope for the average principle to operate. It is, however, always safer to defer taking credit for accrued profit till the policies or reversions actually fall in, and meanwhile to debit interest at an agreed rate.

Assurance companies invest considerable portions of their funds in the purchase of reversionary interests, and account for them in a way similar to that described here.

LIFE POLICY ACCOUNT.

(East Coast Life Assurance Society.)

Policy No. 10462 dated January 1, 1921, for £1,000 with bonuses. Due January 1, 1941, or previous death. Guaranteed surrender value one-third of premiums paid plus cash value of bonuses.

Dr. Cr.

		Amount Assured £	s	d.	£	s.	d.			Amount Assured £	s	d.	£	s	d.
1921 Jan. 1	To One-third premium paid .. .	1,000	0	0	17	13	4	1930 Jan. 1	By Balance carried down .. .	1,120	0	0	246	13	4
1922 Jan. 1	,, One-third premium paid				17	13	4								
1923 Jan 1	,, One-third premium paid . .				17	13	4								
Dec 31	,, Bonus added	45	0	0	25	0	0								
1924. Jan 1	,, One-third premium paid .				17	13	4								
1925 Jan. 1	,, One-third premium paid . .				17	13	4								
1926 Jan 1	,, One-third premium paid				17	13	4								
1927 Jan 1	,, One-third premium paid				17	13	4								
1928 Jan 1	,, One-third premium paid . .				17	13	4								
Dec. 31	,, Bonus added	75	0	0	45	0	0								
1929 Jan 1	,, One-third premium paid .. .				17	13	4								
1930 Jan 1	,, One-third premium paid				17	13	4								
		£ 1,120	0	0	246	13	4			£ 1,120	0	0	246	13	4
1930 Jan. 1	To Balance brought down	1,120	0	0	246	13	4								

EXAMINATION QUESTIONS.

1. Define Life Assurance What steps should be taken by the assignee of a Life Policy to complete his title to receive the sum assured ? (*Chartered Accountants.*)

2. Differentiate between Assurance and Insurance. Explain the following terms: Surrender Value, Premium, Insurable interest, Re-insurance. (*Central Association Accountants.*)

3. What do you understand by an "insurable interest" in contracts of life insurance ? Has a man an insurable interest in the life of (*a*) his wife, (*b*) his son ? Has a son an insurable interest in the life of his father ? (*Incorporated Accountants.*)

4. What is meant by an insurable interest ? It has been said that "insurance is a contract of indemnity." How far is this true of (*a*) a fire insurance; (*b*) marine insurance; (*c*) life insurance ? (*Central Association Accountants.*)

5. Explain the following classes of policies in connection with Assurance: Endowment; Whole Life; Without Profits. (*Central Association Accountants.*)

6. Explain briefly the meanings of the undermentioned terms as applied to Assurance Companies :—Quinquennial Valuation; Loading; Half-credit Policy; Industrial Policy; Re-assurances; Bonus.
If any of the above items would affect the annual accounts, explain briefly where they would appear. (*Royal Society Arts*)

7. What are the functions of an Insurance Broker, and what is his position as between the Assured and the Underwriter ? (*Chartered Accountants.*)

8. Under what Act are the accounts of Assurance Companies regulated ?
Explain where you would expect to find the undermentioned items in the accounts of a Life Assurance Company ? (*a*) Final call upon the share capital of the company, £50,000; (*b*) Re-assurances, £12,468; (*c*) Income tax on investments; (*d*) Claims admitted but not paid. (*Royal Society Arts*)

9. Are Life Assurance Companies under statutory obligation to present their accounts in any particular form ? Illustrate your answer by giving a *pro forma* Revenue Account. (*Royal Society Arts.*)

10. Give a *pro forma* Valuation Balance Sheet of an Assurance Company.
Contrast the methods of ascertaining profits employed by an Assurance Company with those of a commercial undertaking. (*London Chamber Commerce.*)

11. Briefly explain the method of ascertaining the profits of an Assurance Company, and illustrate your answer with a *pro-forma* example. (*Chartered Accountants.*)

12. How is the profit or loss ascertained of (*a*) a Life Assurance Company, (*b*) a Fire Insurance Company ? (*Chartered Accountants.*)

13. How are the profits of a Life Assurance Company ascertained ? Give a specimen of the form of account usually employed, and illustrate your answer by means of imaginary figures. (*London Chamber Commerce.*)

14. Is the ordinary form of Profit and Loss Account suitable for employment by a Life Assurance Company ? If not, explain how the profits of such undertakings are ascertained. (*Royal Society Arts.*)

15. Give a description of the statutory forms of a Life Insurance Company's Balance Sheet and Revenue Account, and a list of the books required by the Accounts Department. (*Incorporated Accountants.*)

16. Briefly describe a system of book-keeping which could be suitably employed by a Life Assurance Company, and give *pro forma* rulings of not more than two books which you would recommend. (*Royal Society Arts.*)

17. Give a form (or forms) of ruling of a Cash Book suitable for the

record of the Receipts and Payments of a Life Assurance Company with a large business and many agencies. (*Royal Society Arts.*)

18. Briefly describe the information which you would expect to find in the "General Ledger" of an Insurance Company. (*Royal Society Arts.*)

19. What would be the best method of recording the cash accounts of a large Assurance Company, recognising the fact that, under certain heads of receipts and expenditure, the number of items may be hundreds daily? (*Chartered Accountants.*)

20. Under what heads should investments, other than Mortgages, of a Life Insurance Company be classified in the Balance Sheet so as to comply with the provisions of the Life Assurance Companies Acts? (*Chartered Accountants.*)

21. In auditing the accounts of an Insurance Company, what steps would you take to ascertain whether all "Claims" had been properly included? (*Chartered Accountants.*)

22. If you were auditing a Life Assurance Company's accounts, what evidence would you require as to the items of "unpaid interest" and "accruing interest" on investments, and where would the totals thereof be placed in the Balance Sheet? (*Chartered Accountants.*)

23. In the accounts of an Insurance Company, what are the chief "errors of principle" which should be avoided? (*Incorporated Accountants.*)

24. A Life Insurance Company pays £1,500 to purchase an agent's interest in renewal premiums. What is the correct treatment of such expenditure? Explain fully. (*Incorporated Accountants.*)

25. What special provisions beyond those of an ordinary audit exist with reference to the accounts of Insurance Companies? (*Chartered Accountants.*)

26. How would you verify the receipt of the premiums payable in one year to a Life Assurance Company? (*Chartered Accountants.*)

27. An Insurance Company holds on account of its Insurance Fund securities of a high class such as Consols, New Three per Cents, Metropolitan Board of Works Stock, etc., which are subject to variation in market value mainly in consequence of the fluctuations in the demand for such securities on the part of the public, but are also liable to sudden depreciation in times of panic. How should these be dealt with in the books and in the Balance Sheets of a Company which has a share capital entitled to receive, in the form of dividends, any surplus over the Insurance Fund: firstly, in a time of general prosperity, when the public appreciation of the various stocks has raised them to an inflated price, being considerably in excess of the cost to the Company; and secondly, at a time of exceptional depression, when panic on the Stock Exchanges has unduly reduced the quotations? Give your reasons fully. (*Chartered Accountants.*)

28. Explain the meaning of the undermentioned items which appeared in the annual accounts of a Life Assurance Company, and state where they should appear in the published accounts of the Company: Life Assurance Fund at the beginning of the year, £4,099,971; Income Tax (less rebate) paid on interest, dividends, etc., £8,958; Claims, £198,487; Consideration for Annuities granted, £36,452; Deposit with the High Court, £20,440; Mortgages on Property within the United Kingdom, £409,489; Claims admitted but not paid, £66,431. (*Chartered Accountants.*)

29. When auditing the accounts of a Life Insurance Company, you find that the understated entries were passed through the Journal at the close of the year:—

	£	£
Claims Account *Dr.*	7,896	
To Outstanding Claims Account		7,896
Outstanding Premiums Account *Dr.*	17,642	
To Premium Account		17,642

Explain the meaning of these entries and detail the examination to which you would submit them. (*Chartered Accountants.*)

30. Prepare, in the proper statutory form, the Revenue Account of the Minster Assurance Company, Ltd, for the year ended December 31st, from the following figures:—Claims: By Death, £76,140; By Maturity, £30,110; Premiums, £705,690; Transfer Fees, £129; Consideration for Annuities granted, £82,127; Annuities paid, £53,461; Bonuses paid in Cash, £2,416; Expenses of Management, £31,920; Commission, £9,574; Interest, Dividends, and Rents, £97,840; Income Tax thereon, £5,710; Surrenders, £13,140, Bonuses in Reduction of Premiums, £980; Dividends paid to Shareholders, £5,500; Amount of Life Assurance Fund at the beginning of the year, £1,521,000. (*London Chamber Commerce*)

31. From the following figures make out the Revenue Account and Balance Sheet of the Commonweal Life Assurance Company for the year ended December 31st: Funds at the beginning of the year, £5,744,148 (the above amount includes Shareholders' Paid-up Capital, £87,500, and Investment Reserve Fund, £40,000); Premiums (less Re-assurances), £355,674; Consideration for Annuities granted, £11,338; Interest and Dividends, £223,535; Fines for Revivals of Policies, £358; Claims announced but not paid, £76,135; Annuities due but not applied for, £427; Bank Loan, £50,000; Premiums paid in advance, £575; Claims by death, £337,955; Claims by survivance, £32,226; Surrenders, £37,303; Annuities, £38,688, Commission, £11,417; Expenses of Management, £43,770, Interest and Dividends to Shareholders, £9,878; Bonuses in Reduction of Premiums, £11,156; Income Tax, £8,594; Mortgages in United Kingdom, £902,956; Mortgages out of United Kingdom, £394,360; Loans on Company's Policies, £415,269; Colonial Government Securities, £569,517; Foreign Government Securities, £172,760; Colonial Municipal Securities, £850,320; Railway Shares and Debentures, £2,042,477; Loans on security of Public Rates, £425,360; Outstanding Premiums, £77,651; Interest accrued but not yet payable, £69,613; Cash in hand and on Current Account, £10,920. (*National Union Teachers.*)

32. Prepare the Revenue Account of the Steadfast Assurance Company, Ltd., in the proper statutory form, from the following:—Claims: By Death, £94,362; By Maturity, £56,450; Surrenders, £9,876; Commission, £5,624; Expenses of Management, £8,762; Premiums, £121,846; Amount of Life Assurance Fund at the beginning of the year, £2,176,846; Income Tax, £4,982; Annuities paid, £26,842; Consideration for Annuities granted, £86,422; Interest, Dividends and Rents, £79,146; Bonuses in Reduction of Premiums, £682. (*Chartered Accountants.*)

33. Prepare accounts in statutory form at December 31, 1919, of the Infallible Assurance Company from the following particulars · Shareholders' Capital, 10,000 Shares at £100 each, £10 paid up. Deposit with the High Court, £20,000; Premiums, £500,000; Agents' Balances, £7,500; Claims admitted but not paid, £50,000; Surrenders, £9,000, Annuities due and unpaid, £2,000; Investments in British Government Securities, £1,600,000; Claims under Policies paid and outstanding: Death, £260,000; Maturity, £175,000; Mortgages on Property within the United Kingdom, £900,000, Mortgages on Property out of the United Kingdom, £100,000; Outstanding Premiums, £4,100; Freehold Ground Rents, £50,000, Commission, £60,000; Annuities, £7,000; Interest, Dividends and Rents, *less* Income Tax, £300,000; Loans on Life Interests, £12,000; Consideration for Annuities granted, £156,000; Loans on Personal Security, £20,000; Investments in Indian and Colonial Government Securities, £600,000; Loans on Companies' Policies, £30,000; Amount of Assurance Fund, January 1, 1914, £4,100,000; Investments in Foreign Government Securities, £900,000; Expenses of Management, £50,000; Railway and other Debentures and Debenture Stock, £400,000; Investments Reserve Fund, £89,700. (*Central Association Accountants.*)

34. A dishonest employee of an Assurance Company drew certain cheques purporting to represent claims made upon the Company which had arisen owing to the death of policy holders, and submitted the cheques to the Claims Committee of the Directors for signature. In order to substantiate these payments, the employee produced old policies and death certificates

relating to claims previously settled, the names and dates in which had been skilfully altered. The cheques were duly signed by the directors, endorsed by the employee, and paid into his private banking account.

You are auditor to the Assurance Company. Would your audit expose this fraud? If so, how? *(Chartered Accountants.)*

35. Briefly explain the meaning of the following entries, which appeared in the books of the East Essex Assurance Company, Ltd., at the close of the Company's financial year; and describe the sources from which the entries would be compiled :—

	£	£
(*a*) Claims Account *Dr.*	15,000	
To Outstanding Claims Account ..		15,000
for Claims admitted, but not paid.		
(*b*) Agents' Commission Account *Dr*	1,980	
To Sundry Agents		1,980
for Commission due, but not yet paid.		
(*c*) Outstanding Premiums Account *Dr*... ..	21,000	
To Premiums Account		21,000
for Premiums not yet collected.		

(Royal Society Arts.)

36. State in detail how you would proceed to verify the following items in the Balance Sheet of a Life Insurance Company submitted to you for audit: Loans to policy holders within the value of their life policies; Loans on Mortgage of Freehold and Leasehold Property, Investment in Railway Stocks in the United Kingdom; Investments in Debentures of Industrial Companies; Cash on Deposit Account with Bankers; Cash on Current Account with Bankers; Interest on Loans due to the Company, but not yet paid. *(Chartered Accountants.)*

✓**37.** After closing the Revenue Account, the Trial Balance of the Reliable Assurance Society, as on December 31st, was as follows :—

	Dr. £	Cr. £
Funds at the end of the year		305,292
Cash at the Bank	11,346	
Mortgages on Property within the United Kingdom	86,146	
British Government Securities	46,450	
Loans on Reversions	10,000	
Foreign Government Securities	25,723	
Railway Companies' Debentures . ..	15,014	
Sundry Creditors		3,089
Railway Companies' Shares	40,827	
House Property	28,519	
Loans on Society's Policies	21,861	
Agents' Balances	4,117	
Claims admitted but not paid		1,000
Outstanding Premiums	13,114	
Outstanding Interest	1,964	
Furniture	4,300	
	£309,381	£309,381

Prepare a Balance Sheet in the form prescribed by the Life Assurance Companies Acts. *(Chartered Accountants.)*

38. A limited company, employing several thousand workpeople, obtained permission to stamp National Health Insurance cards half-yearly. A deposit is made fortnightly with the National Health Commissioners on account of the estimated amount of the stamps required for each half-year. The employees' contributions are deducted weekly from the wages, the employer's contribution being also shown in the wages sheets. A small stock of stamps is kept in order that the cards of employees who leave during the half-year may be stamped.

As auditor to the company, you are asked how you desire the above transactions to be recorded in the books, and what evidence you require as to their accuracy.

Submit your report. (*Chartered Accountants.*)

39. From the statement below make out the Revenue Account and Balance Sheet of the Imperial Life Assurance Company :—Life Assurance and Annuity Fund at beginning of year, £5,612,488; Premiums, less Re-assurances, £360,220; Consideration for Annuities granted, £10,140, Claims by death, £307,657, Claims by survivance, £62,524; Interest and Dividends, £220,189; Surrenders, including Bonuses for Cash, £30,383; Annuities, £37,609; Commission, £14,445; Expenses of Management, £40,743; Fines for Revival of Policies, £172; Fees for recording Assignments, £183; Shareholders' paid-up Capital, £75,500; Shareholders' Extra Dividend Fund, £5,000; Investment Reserve Fund, £55,000; Dividends and Interest to Shareholders, £10,899; Bonuses in reduction of Premiums, £8,730; Income Tax, £18,000, Mortgages within United Kingdom, £962,800; Mortgages out of United Kingdom, £94,361; Loans on Company's Policies, £406,596; Deposit with the High Court, £20,000; British Government Securities, £875,375; Municipal Loans in United Kingdom, £300,000, Indian and Colonial Securities, £755,250; Railway Stocks and Debentures, £1,822,330; Freehold Ground Rents, £453,175; Claims admitted but not paid, £65,400; Annuities due not applied for, £525; Agents' Balances, £4,500; Premiums Outstanding, £75,500, Interest accrued not payable, £70,000; Cash in hand and at Bank, £33,940. (*National Union Teachers.*)

40. Prepare Revenue Account and Balance Sheet, as on December 31, 1916, of the Popular Mutual Assurance Company, the following being the Ledger Balances: Assurance Fund, December 31, 1915, £739,100; Assignment Fees, £50; Annuities, £2,500; Agents' and other Debit Balances, £2,750; British Government Securities, £119,600; Consideration for Annuities granted, £6,200; Claims paid and outstanding, £51,800; Commission, £1,600; Claims admitted but not paid, £8,500; Cash at Bankers, £9,355, Cash in hand, £75; Deposit with the High Court, £20,000; Expenses of Management, £4,700; Foreign Government Securities, £33,800; Freehold Ground Rents, £46,900; House Property, £84,500; Interest, Dividends and Rents, £29,400; Income Tax on Dividends and Rents, £6,650; Indian and Colonial Government Securities, £14,700; Interest accrued but not yet payable to the Company, £6,500; Loans on Reversions, £5,200; Loans on Policies, £53,100; Mortgages in the United Kingdom, £211,800; Outstanding Premiums, £8,420; Outstanding Interest, Dividends and Rents, £700; Office Fixtures and Furniture, £1,200; Premiums, £52,600; Railway and other Debenture and Debenture Stocks, £137,200; Railway and other Preference Stocks and Shares, £12,000; Surrenders, £3,400; Sundry Creditors, £2,600. (*Chartered Accountants.*)

41. Make out in the form prescribed the accounts of the Samaritan Assurance Society from the following: Assurance Fund, January 1st, £260,042, Assurance Fund, December 31st, £258,999, Premiums, £18,195; Outstanding Premiums, £2,335; Loans on Society's Policies, £14,767; Consideration for Annuities granted, £850; Claims by death, £19,698; Commissions, £544; Expenses of Management, £2,344; Reductions allowed to members on their Premiums, £1,860; Interest, Dividends, and Rents, £9,050; Annuities, £1,173; Mortgages on Property, £70,369; British Government Securities, £57,634; Railway Shares, £112,746 Profit on Reversions fallen in, £2,156; Outstanding Interest and Rents, £1,081; Balances due by Agents, £66; Claims admitted but not paid, £4,177; Depreciation on Investments, £3,975; Surrenders, £1,700; Sundry Creditors, £836; Loans on Personal Security, £687; Accrued Interest, £2,269; Cash in hand, £2,058. (*Chartered Accountants.*)

42. From the following Ledger balances of a Life Assurance Office prepare a Revenue Account and Balance Sheet: Claims (less Re-assurances), £77,897 8s. 1d.; Mortgages on Property within the United Kingdom, £334,400; Endowment Policies matured, £28,914 15s 4d.; Endowment Policies matured but not paid, £9,145 19s. 4d.; Mortgages on Parochial

and Borough Rates, £360,685 15s. 1d.; Annuities due but not paid, £200; Policies Surrendered, £8,692 8s. 3d.; Consideration for Annuities granted, £2,014 1s. 9d.; Annuities, £12,670 15s. 1d.; Interest and Dividends received, £64,709 4s; Loans on Policies within their Surrender Value, £121,563 13s 6d.; Claims outstanding from previous years, £833 9s. 3d; Medical Fees, £800; Agents' Balances, due by Office, £127 13s. 3d.; Premiums on Credit Policies fully secured, £1,300; Directors' Remuneration, £2,381 12s. 6d., Funds at beginning of year, £1,730,292 11s. 5d.; Premiums (less paid for Re-assurance), £132,302 8s. 8d.; Auditor's Fees, £152 10s.; Actuary's Fees (Consulting), £35; Agents' Balances, £17,898, Commission due but not paid, £123 1s. 6d.; Funds at end of year, £1,694,853 11s. 5d.; Outstanding Premiums, £2,258 8s. 4d.; Salaries and Income Tax, £8,155 6s. 6d.; Printing, Rent, etc., £4,998 17s. 8d.; Cash Bonuses paid, £85,841 2s. 11d.; Commission, £4,001 10s., Life Interests and Reversions, £8,763 18s. 1d.; Claims admitted but not paid, £8,766 4s. 7d.; Cash in hand and at Bank, £2,791 13s 2d.; Outstanding Interest, due to Office, £18,263 4s. 8d.; British Government Securities, £54,852 17s. 10d.; Indian and Colonial Government Securities, £121,300; Fines and Fees received, £79 11s. 11d; Railway and other Debentures, £125,553 7s. 4d.; Railway Stocks, Preference and Ordinary, £333,790 8s.; Freehold and Leasehold Property, £210,628 13s. 4d. *(Chartered Accountants.)*

✓ **43.** Draw Balance Sheet and Revenue Account from the following Trial Balance of the Active Life Assurance Company:—

TRIAL BALANCE, YEAR ENDING DECEMBER 31st.

	Dr. £	Cr. £
Premiums		150,000
Interest and Dividends		75,000
Cash at Bankers	10,000	
Claims	105,000	
Mortgages on Property within the United Kingdom	300,000	
Policies Surrendered	7,000	
Mortgages on Life Interests and Reversions	70,000	
Outstanding Premiums	4,000	
Rent Charges purchased	30,000	
Outstanding Interest	20,000	
Expenses of Management	10,000	
Claims Outstanding		5,000
Funds at beginning of year		1,000,000
Creditors		1,500
Allowances in Reduction of Premiums	70,000	
Mortgages on Rates	415,500	
House Property	10,000	
Loans on Policies	120,000	
Consols and New Three per Cents.	40,000	
Railway Debentures	20,000	
	£1,231,500	£1,231,500

(Chartered Accountants.)

44. Explain the meanings of the following items, which have been extracted from the accounts of a Life Assurance Company, and state where they would appear in the published annual accounts: Amount of Life Assurance Fund at the end of the year, Income Tax on Interest and Dividends received; Surrenders; Outstanding Premiums. *(London Chamber Commerce.)*

45. Explain the following terms as applied to Insurance: "Insurable interest"; "Surrender value" (upon what is this based?); "Mutual" and "Proprietary Companies"; "Re-insurances." Also state and define the principal classes of Insurance business. *(Chartered Accountants.)*

46. A man buys, as investments, several policies of assurance on the

lives of other persons. Some of the policies are paid up, but others are liable to yearly premiums. How would you keep the accounts of such investments? (*Chartered Accountants.*)

47. A trading firm have effected Policies of Assurance on the lives of certain of the partners and managers. Should the premiums on such policies be shown as an asset on the Balance Sheet or debited to the Profit and Loss Account? Give the reason for your answer. (*Institute of Bankers.*)

48. Reid and Ranger are in partnership. The bulk of the capital belongs to Reid, who is of advanced age. A Policy of Assurance is taken out by the firm on the life of Reid for £2,000, the annual premium upon which amounts to £450. How should this annual payment be treated in the books of the firm? (*Royal Society Arts.*)

49. Gustave Grunnerwald owes £1,000 to L. C. Breslau. Being unable to pay the debt, Grunnerwald, who is seventy years old, assigns an Endowment Policy, without profits, for £1,500, payable at the age of seventy-five, to Breslau, in full discharge of the debt. The annual premium payable on the policy amounts to £50, which Breslau agrees to pay.

How should Breslau treat the transaction in his books? (*Royal Society Arts.*)

50. John White owes £1,000 to Wm. Brown for goods supplied, but, as he is unable to liquidate the debt, he agrees to hand over his policy of Life Assurance to Brown.

The policy is for £1,800 without profits, payable at the age of fifty-five or death, and carried an annual premium of £90. White's present age is forty-seven and the surrender value of the policy is £607.

Brown elects to keep the policy alive by paying the annual premiums as they become due. What entries will appear in Brown's books? (*Chartered Accountants.*)

51. A company insured for its own benefit the life of the managing director for £10,000, at an annual premium of £250. How would you expect the outlay to be dealt with in the accounts submitted to you for audit? (*Chartered Accountants.*)

52. In making up the accounts of a trading firm by whom Policies of Assurance had been effected on the lives of the respective partners, how would you deal with the premiums paid in respect of such policies? How would these appear in any statement asked for by the Commissioners of Income Tax, and what, if any, allowance should be made by them in respect thereof? (*Chartered Accountants.*)

CHAPTER XVI

BRANCH ACCOUNTS. DEPARTMENTAL ACCOUNTS.

BRANCH ACCOUNTS.

IT is impossible to deal with every form of relationship which a Branch business may bear towards its Parent House, since the exact relationship is determined by the particular needs of the case. All that it is proposed to do here is to explain the underlying principles applicable to all cases alike, which, once they are clearly grasped, can easily be adapted to any set of circumstances.

The simple book-keeping system adequate for the sole trader with a single office or shop is naturally inadequate to numerous establishments controlled by a central management. In multiple concerns, the buying is generally done by the Head Office, and adequate checks on the honesty and efficiency of the Branch management are necessary if the undertaking is to be controlled effectively.

To be satisfactory, a system of Branch book-keeping should afford :—

(*a*) Facilities for ascertaining at any time the trading results of each Branch.

(*b*) Efficient checks on the honesty of the Branch staffs

(*c*) Prompt information on all matters affecting proper supervision and control.

(*d*) Material for making useful comparisons as between trading periods.

In addition to the foregoing :—

(*e*) Suitable statistical returns must be devised for dealing periodically with such matters as stock required ; orders in hand ; orders not yet commenced ; special local requirements ; customers' complaints ; stock on hand ; accounts due ; accounts overdue, and so on.

Kinds of Branches.—Broadly speaking, branches can be divided into two classes :—

(*a*) Mere selling agencies, keeping no independent accounts other than those relating to sales and petty disbursements.

(*b*) Branches which do keep independent books and record all their transactions.

Class (*a*) chiefly consists of businesses dealing in everyday requirements suitable for sale in all districts alike, while class (*b*)

embraces also such businesses as are affected by local customs or fashions, the effective conduct of which requires that the Branch manager should be allowed some discretion in buying goods.

Branch as Agency.—In the early stages of its career a Branch business frequently acts as a mere feeder of, or local collecting agent for, its Head Office. All orders obtained by the Branch are executed by the Head Office, the Branch collecting payment for them. This kind of Branch is practically a department of the Head Office, and can scarcely be described as an independent concern. Very little book-keeping is done at such a Branch. It is not in a position to keep independent books, since these are necessarily kept by the Head Office. The few books it does keep may include a Petty Cash Book showing the disbursement of the limited funds entrusted to it by the Head Office, one or more carbon duplicating Order Books for orders transmitted to the Head Office, and a record of the amounts due from customers, showing those paid and those still outstanding. The latter may take the form of a file of "carbon," or other duplicate copies of the invoices sent to customers, marked off as they are paid. All moneys collected should be paid intact into the Bank. Payments should be made from the petty cash, kept on the imprest system, periodically restored to the imprest amount by remittances from the Head Office When coin must be kept for change purposes, the definite amount allocated to the Branch manager for the purpose stands as a perpetual debit in the Head Office books, and is included in the cash balance when the accounts are prepared. If the amount of change required is small, it may be borrowed temporarily from the petty cash. Plant, Fixtures, and Fittings and other assets held by the Branch, including the Branch personal accounts, will be accounted for in the Head Office books. These accounts may be kept in a separate Branch Ledger, but the Ledger itself is part and parcel of the Head Office book-keeping system, and is merged in the General Trial Balance.

Branch as Independent Trader.—A Branch trading independently will execute its own orders, mainly from stock obtained from the Head Office, but perhaps also, to some extent, from stock obtained elsewhere. It will collect, and be answerable for, its own book debts; and, if it be permitted to keep a banking account, it will discharge its own liabilities, and make periodical remittances to the Head Office. The extent to which the Branch will exercise all or any of these functions will depend upon the character and organisation of the business as a whole. A Branch manager's activities are usually restricted, particularly in financial operations. Sometimes it is the rule that no stock is to be purchased except from, or through, the Head Office.

Book-keeping at Independent Branch.

It is usually necessary to segregate the book-keeping of a Branch trading independently in one or more Branch Ledgers. These ledgers may be kept at the Head Office, or the Branch, whichever is the more convenient. The mere location of the

ledgers does not affect book-keeping principles. As a general rule, a Branch has the custody of its own books as soon as it has attained a fair degree of development.

The Head Office opens in its own Nominal, or General, Ledger a *Branch Adjustment Account* for the Branch Ledgers, and the Branch book-keeper responds by opening in the Branch Ledger a *Head Office Adjustment Account.* By means of the Adjustment Account, the Head Office treats the Branch either as debtor or creditor as the transaction may require, debiting the Branch with all remittances and payments in money or kind made on its behalf (including, of course, goods supplied from Head Office stock), and crediting the Branch with everything received from it, whether in the form of cash, returns, allowances, or other credits. The Branch book-keeper, in the Head Office Adjustment Account, treats the Head Office conversely, crediting everything received from it and debiting everything sent to it.

The book-keeping relationship between the two offices is exclusively that of debtor and creditor, and, since the Head Office and the Branch schedule each other, in their respective Trial Balances, as being reciprocally debtor and creditor for like amounts, the two Trial Balances can be combined in one General Trial Balance by omitting the corresponding Head Office and Branch Adjustment Account balances, which, being equal and opposite, cancel each other. These balances must be omitted, for while they represent assets and liabilities, they are assets and liabilities *inter se,* and not as regards the undertaking as a whole.

To ensure the agreement of the Adjustment Accounts, it is sometimes the practice, if the branches are few and near at hand, to delay the final balance until all the transactions between Head Office and Branches have been mutually responded to, so that the Head Office and the Branch Adjustment Account balances may agree and cancel each other when the accounts are combined. It is more scientific, however, to close the books as they stand, and to adjust all items in transit in the way explained at p. 889.

Treatment of Profit or Loss.—At the end of a trading period, the Branch prepares its own Trading and Profit and Loss Accounts just as an independent business would, and shows in the latter account a final balance of profit or loss. This balance is passed to the Head Office by crediting it if a profit, or by debiting it if a loss to the Head Office Adjustment Account.

The Head Office Account in the Branch Ledger commonly shows a credit balance, because it includes the cost of the fixed and floating assets provided by the Head Office to enable the Branch to trade. The Adjustment Account resembles the Capital Account of a sole trader, and the transference of Branch profits or losses to this account is analogous to the closing of the Profit and Loss Account into the trader's Capital Account.

The Head Office responds to the Branch entries by debiting the Branch Adjustment Account with the amount of the profit, and crediting its own Profit and Loss Account. These entries make the reciprocal adjustment accounts agree, and, after the

elimination of the compensating balances, enable the Branch and Head Office Trial Balances to be combined.

When combining the Trial Balances, items common to both should be amalgamated, e.g. the cash balances at the Branch and Head Offices should appear in one total of cash in the combined Trial Balance.

Illustration.—A company having a number of retail shops, opened a new Branch on July 1, 19.., and supplied it with £600 cash, and goods, value at cost, £3,694 18s. 9d. The following additional goods were supplied. August 31st, £2,214 18s. 9d.; September 30th, £1,821 12s. 2d. The Branch remitted cash to the Head Office as follows: July 30th, £1,500, August 31st, £2,000, September 30th, £1,500 The Branch profit for the quarter ended September 30, 19.., was £214 18s. 9d., and at that date the Branch assets comprised:—

	£	s.	d.
Cash	317	18	9
Stock	2,091	0	0
Book Debts	1,137	9	8

Show the Branch account in the Head Office books and the Head Office Account in the Branch books.

BRANCH ACCOUNT.

(In the Head Office Ledger.)

Dr. Cr.

Date		£	s.	d.	Date		£	s.	d.
19.. July 1	To Cash	600	0	0	19.. July 30	By Cash	1,500	0	0
" 1	" Goods supplied	3,694	18	9	Aug 31	" Cash	2,000	0	0
Aug. 31	" Goods supplied to date	2,214	18	9	Sept. 30	" Cash	1,500	0	0
Sept 30	" Goods supplied to date .	1,821	12	2	" 30	" Balance carried down represented by— Cash at Branch £317 18 9; Stock at Branch 2,091 0 0; Book Debts due to Branch 1,137 9 8	3,546	8	5
" 30	" Branch Profit for Quarter	214	18	9					
	£	8,546	8	5		£	8,546	8	5
19.. Sept. 30	To Balance— Branch Cash .. £317 18 9; Branch Stock .. 2,091 0 0; Branch Book Debts .. 1,137 9 8	3,546	8	5					

HEAD OFFICE ACCOUNT.

(In the Branch Ledger.)

Dr. Cr.

Date		£	s.	d.	Date		£	s.	d.
19.. July 30	To Cash to Head Office	1,500	0	0	19.. July 1	By Cash	600	0	0
Aug 31	" Cash to Head Office	2,000	0	0	" 1	" Goods	3,694	18	9
Sept 30	" Cash to Head Office	1,500	0	0	Aug. 31	" Goods	2,214	18	9
" 30	" Balance carried down	3,546	8	5	Sept. 30	" Goods	1,821	12	2
					" 30	" Net Profit for Quarter transferred to credit of Head Office ..	214	18	9
	£	8,546	8	5		£	8,546	8	5
					19.. Sept. 30	By Balance brought down .. .	3,546	8	5

Suspense Account.—If the Head Office and Branch respond promptly to each other's entries, the reciprocal accounts will agree, but when the Head Office and Branch are far apart there is usually, at balancing times, a residuum of entries initiated by the one and not responded to by the other, e.g. goods or cash sent by the Head Office but not, at the time of balancing, received by the Branch. The statements passing between the offices at balancing times should be promptly checked against the reciprocal Ledger accounts, and all items unresponded to should be transferred to a Suspense Account for items in transit. In this way the Adjustment Accounts will show like balances, permitting the combination of the trial balances. After balancing, the suspense items can be retransferred to the Adjustment Account whence they came.

When preparing the combined Trial Balance, items carried to Suspense Account must be allowed for, and be included in the General Balance Sheet under their proper headings. Thus goods in transit should be included under the heading "Stock." Vague headings, such as "Items in Transit," should be avoided in a Balance Sheet The author has occasionally seen the debit balances of the Branch Ledger accounts entered as "Sundry Debtors," a somewhat inappropriate designation for heterogeneous assets comprising Leases, Fixtures and Fittings, Stock, Cash, etc. In a Balance Sheet all assets should be grouped under their proper headings. In the case of Limited Companies, the *Companies Act*, 1929, makes such grouping compulsory.

Inter-Branch Adjustment Accounts.—Large undertakings with Branches in all parts of the world may require inter-Branch Adjustment Accounts in addition to those between each Branch and the Head Office, and the preparation of the combined Balance Sheet may, accordingly, prove complicated. But no matter how complex the details may be, the principles are the same, and, given time and patience, the most complicated accounts may be made to interlock on the principles already explained. It is the rule in some businesses for the Branches to settle inter-Branch transactions through the Head Office, thereby avoiding the necessity for inter-Branch Current Accounts. Each Branch credits the Head Office with all goods or remittances received from any other Branch, and debits the Head Office with all goods or remittances sent to any other Branch.

Rules for Reconciling Adjustment Accounts.—The difficulty sometimes experienced in reconciling the accounts of a Branch remote from the Head Office is reduced if definite arrangements are made to facilitate the process.

It should be clearly understood which office is to render statements to the other, and who is to check and reconcile them. It ought, too, to be the rule that complete advices of all entries should be promptly forwarded by the originating house, and equally promptly responded to by the recipients, whether actually terminated on receipt of the advice or not. A Reconciliation Statement should be prepared at periodical intervals, the process

following much the same lines as that adopted when reconciling Cash Book and Pass Book. The statement rendered, say by the Branch, is ticked off against the Branch Account in the Head Office books, and all items in transit in either direction are collected and totalled. The statement may work backwards or forwards in point of date; the essential thing is that the balances

CHARLES BROTHERS.

LONDON OFFICE TRIAL BALANCE, JUNE 30, 19...

	Dr. £	s.	d.	Cr. £	s.	d.
Cash at Bank	1,221	16	5			
Sundry Debtors	3,416	18	9			
Stock of Goods	4,111	11	1			
Sundry Creditors..				1,114	16	8
Nottingham Branch	1,214	16	9			
Partners' Capital Accounts				8,850	6	4
	£9,965	3	0	£9,965	3	0

NOTTINGHAM BRANCH TRIAL BALANCE, JUNE 30, 19...

	Dr. £	s.	d.	Cr. £	s.	d.
Cash at Bank	411	18	2			
Sundry Debtors	4,116	19	3			
Sundry Creditors..				4,112	16	9
Stock of Goods	514	18	9			
London Office Account				930	19	5
	£5,043	16	2	£5,043	16	2

The difference, £283 17s. 4d, between the Nottingham balance in the London books and the London balance in the Nottingham books is accounted for as follows —

On June 30th London remitted £200 cash to Nottingham, which did not reach the Branch until July 1st. On June 29th Nottingham returned, as unsuitable, goods to the value of £83 17s. 4d. Nottingham debited London on June 29th, but London did not receive them until July 2nd.

should be shown to agree. Examples of Head Office and Branch Trial Balances and Balance Sheet are given above and on p. 891.

The main account between a Head Office and a Branch abroad can, in most cases, be relieved of unnecessary detail by employing subsidiary accounts and comprehensive advice lists, only the totals of which are transferred to the main account on the departure of a mail. The totals are responded to by the recipients on the mail's arrival, the component items as shown by the advice lists being debited or credited in detail to the proper accounts.

Thus, if the London Office, acting for its Brisbane Branch, pays twelve separate sums aggregating £709 12s. 4d., and buys from twenty-four firms goods to the aggregate value of

CHARLES BROTHERS, LONDON AND NOTTINGHAM.

COMBINED BALANCE SHEET, JUNE 30, 19 ..

Liabilities.	£ s. d.	£	s.	d.	Assets	£ s. d.	£	s.	d.
Partners' Capital Accounts		8,850	6	4	Sundry Debtors:—				
Sundry Creditors:—					London	3,416 18 9			
London	1,114 16 8				Nottingham	4,116 19 3			
Nottingham	4,112 16 9	5,227	13	5			7,533	18	0
					Stock of Goods:—				
					London	4,111 11 1			
					Nottingham	514 18 9			
					In transit	83 17 4	4,710	7	2
					Cash in hand, at Bank and in transit —				
					London	1,221 16 5			
					Nottingham	411 18 2			
					In transit	200 0 0	1,833	14	7
	£	14,077	19	9		£	14,077	19	9

NOTE—In preparing the above combined statement the Cash (£200) and Goods (£83 17s 4d) in transit between the London and Nottingham offices are debited respectively under the heading of Cash and Goods: this causes the reciprocal accounts between the two branches to show like balances and allows of the amalgamation of the two Trial Balances

CREASER & CO., LONDON.

RECONCILIATION STATEMENT BETWEEN THE BRISBANE OFFICE ACCOUNT IN THE LONDON LEDGER AND THE STATEMENT OF THE LONDON OFFICE ACCOUNT RECEIVED FROM CREASER & CO., BRISBANE, IN BOTH CASES TO JUNE 30, 19...

19..		£	s	d	19..		£	s.	d.
June 30	Balance of Brisbane Office Account shown in London Ledger	14,262	18	9	June 30	Shipments of Goods from London to Brisbane in transit at this date:—			
" 30	Amounts received by Brisbane for credit of London Office, not debited by London until after June 30th					Despatched by London, May 27th, *Orontes*	1,142	18	9
	Received in Brisbane, June 15th, Brown & Co.	100	0	0		June 10th, *Orsore*	861	14	8
	June 16th, Jones & Co.	150	0	0		June 26th, *Orient*	1,142	16	9
" 30	Profit on consignment of Goods Account, Matthews & Co., credited by Brisbane on June 16th, not debited by London until after June 30th	117	1	9	" 30	Cash remitted from London to Brisbane, in transit at this date:— Remitted by London, June 26th	500	0	0
					" 30	Sundry charges debited by London to Brisbane, not responded to by Brisbane at this date —			
						Debited by London, June 1st, Freight	211	14	9
						June 15th, Freight	102	16	5
						June 18th, Insurance	21	4	2
					" 30	Shipment of Goods from Brisbane to London, in transit at this date:— Debited by Brisbane, June 16th	214	18	9
					" 30	Credit Balance of London Office Account at this date as per statement received from Brisbane June 30th	10,431	16	3
	£	14,630	0	6		£	14 630	0	6

TRADING ACCOUNT FOR

Dr.

		Head Office			Branch A.			Branch B			Total.		
19 .		£	s	d.	£	s	d	£	s	d	£	s	d.
July 1	To Stock on hand	5,621	14	9	3,122	14	6	3,111	14	9	11,856	4	0
19. June 30	„ Purchases	48,142	19	5							48,142	19	5
„ 30	„ Goods received by Branches from Head Office				21,112	14	6	16,112	11	1	37,225	5	7
„ 30	„ Gross Profits carried down	4,116	19	8	7,000	18	6	8,114	12	6	19,232	10	8
	£	57,881	13	10	31,236	7	6	27,338	18	4	116,456	19	8

PROFIT AND LOSS ACCOUNT FOR

Dr.

		Head Office.			Branch A			Branch B.			Total		
19		£	s	d.	£	s	d	£	s.	d.	£	s.	d
June 30	To Wages and Salaries	1,002	14	6	2,118	19	3	2,711	14	6	5,833	8	3
„ 30	„ Rent, Rates, and Taxes	502	14	6	708	19	6	714	12	2	1,926	6	2
„ 30	„ Travellers' Commissions and Expenses .. .	584	19	6	1,004	12	2	921	14	6	2,511	6	2
„ 30	„ Advertising .. .	400	10	6	685	2	9	1,002	19	8	2,088	12	11
„ 30	„ Fuel, Gas, and Electric Light	76	14	9	82	4	9	102	14	6	261	14	0
„ 30	„ Telegrams and Telephone .. .	26	2	0	36	2	1	39	2	8	101	6	9
„ 30	„ Postages . ..	38	4	9	37	2	4	49	2	6	124	9	7
„ 30	„ Printing and Stationery	279	4	6	81	4	2	103	14	9	464	3	5
„ 30	„ General Expenses ..	108	14	9	46	2	9	71	2	5	225	19	11
„ 30	„ Bad Debts	250	0	0	10	6	0	177	16	0	438	2	0
„ 30	„ Net Profit	846	19	11	2,190	2	9	2,219	18	10	5,257	1	6
	£	4,116	19	8	7,000	18	6	8,114	12	6	19,232	10	8

BALANCE SHEET

	Head Office.			Branch A.			Branch B.			Total.		
LIABILITIES.	£	s.	d	£	s.	d.	£	s	d	£	s	d.
Share Capital Issued, 18,000 shares of £1 each fully paid	18,000	0	0							18,000	0	0
Sundry Creditors	2,491	18	8	237	1	1	314	9	5	3,043	7	2
Profit and Loss Account for the year 19	846	19	11	2,190	2	9	2,219	18	10	5,257	1	6
Reserve for disputed claims under Employers' Liability Act . ..	18	0	10							18	0	10
£	21,356	17	5	2,427	3	10	2,534	8	3	26,318	9	6

NOTE —In the above statement it will be noticed that the Head Office Liabilities exceed Liabilities by £5,593 5s. 6d. (£4,063 16s 1d in the case of Branch A and £1,529 9s 5d. in which have been excluded in preparing a combined Balance Sheet. If the Head Office and the Branches were to bring into their similar statements the credit balances due from equal debit and credit totals.

THE YEAR ENDED JUNE 30, 19...

CR.

		Head Office.			Branch A.			Branch B			Total.		
		£	s	d	£	s	d	£	s.	d	£	s	d.
19 . June 30	By Sales	15,124	19	6	30,122	14	6	27,111	11	2	72,359	5	2
,, 30	,, Goods sent to Branches	37,225	5	7							37,225	5	7
,, 30	,, Stock on hand	5,531	8	9	1,113	13	0	227	7	2	6,872	8	11
	£	57,881	13	10	31,236	7	6	27,338	18	4	116,456	19	8

THE YEAR ENDED JUNE 30, 19...

CR

		Head Office			Branch A.			Branch B.			Total.		
		£	s.	d.	£	s.	d	£	s	d.	£	s.	d
19 June 30	By Gross Profits brought from Trading Account	4,116	19	8	7,000	18	6	8,114	12	6	19,232	10	8
	£	4,116	19	8	7,000	18	6	8,114	12	6	19,232	10	8

AS AT JUNE 30, 19...

	Head Office			Branch A.			Branch B.			Total.		
ASSETS	£	s.	d.	£	s.	d	£	s.	d	£	s.	d.
Goodwill	5,000	0	0							5,000	0	0
Furniture and Fixtures	85	0	0	100	0	0	200	0	0	385	0	0
Stock-in-Trade	5,531	8	9	1,113	13	0	227	7	2	6,872	8	11
Book Debts	3,146	11	1	5,111	16	8	3,124	19	2	11,383	6	11
Bills Receivable..	500	0	0							500	0	0
Cash at Bank and in hand	1,500	12	1	165	10	2	511	11	4	2,177	13	8
£	15,763	11	11	6,490	19	11	4,063	17	8	26,318	9	6

the Head Office Assets by £5,593 5s. 6d , and that the Branch Assets exceed the Branch the case of Branch B) These are the balances of the Branch and Head Office Accounts, were to bring into its sectional Balance Sheet the debit balances of the two branch accounts, them to Head Office, the Head Office and Branch sectional Balance Sheets would each show

£1,254 16s. 8d., the thirty-six items can be debited in detail to Brisbane Payments Account, and, when the mail leaves, a transfer entry for the whole £1,964 9s. can be passed, crediting Brisbane Payments Account and debiting Brisbane Main Account. On receipt of the transfer note and the detailed list, Brisbane credits London with the total amount and debits the component items to the accounts concerned.

On page 891 is shown an illustration of a reconciliation statement prepared periodically to agree the reciprocal account between a Head office and its branch.

Duplicate Branch Ledger.—Though it is true that by means of the reciprocal Adjustments Accounts the Branch books may be kept at any desired place, it is occasionally found that, even when a Branch is allowed to keep its own books, the Head Office, mainly for purposes of discipline and control, prefers to duplicate the Branch books in its own counting house. This involves the despatch, by the Branch to the Head Office, of complete copies of the Branch Cash Accounts and Journal entries. The Branch Ledger, written up by the Head Office from these sources, is chiefly of a memorandum nature. If the Branch entries are very numerous, the keeping of a duplicate Ledger is impracticable, and, even when it is practicable, the practice is liable to break down, owing to the Branch failing to supply complete details. At the best, this method of control involves a great deal of labour, and for this reason it is seldom resorted to, except as a means of supervision in an emergency, or when the book-keeping capacity of the staff is not of a high order.

On pp. 892–3 an illustration is given of a set of Head Office and Branch Accounts in tabular form. Each Branch prepares its own Trading and Profit and Loss Account and Balance Sheet in the usual way, and these can be combined with the Head Office accounts in the manner shown, after the inter-house accounts have been eliminated.

MULTIPLE SHOP CONCERNS.

Another kind of Branch, but little removed from the selling agency stage of development, is exhibited by multiple shop companies, whose Branch trade is almost wholly a cash trade, and whose commodities, e.g. drugs, tobacco, boots, etc., are saleable at fixed prices. Concentration of buying and distribution generally effects economy, and, where possible, it is usual to stock multiple shops from a central warehouse, but district centres may be necessary when perishable goods form the stock-in-trade.

Branches Charged at Selling Prices.—It is sometimes advantageous in these and other suitable cases to charge the goods supplied to Branches at selling prices instead of at cost, since by so doing the Branch is always accountable for a definite amount in cash, book debts or unsold stock, or a combination of the three; and, if the check afforded by this arrangement is efficiently applied, leakage due to fraud or mismanagement is readily detected To yield the maximum benefit, this method of charging

Branch : **CAMBRIDGE**

WEEKLY STOCK RETURN FOR THE WEEK ENDING MAY 17, 19..

	Men's Department £	s	d	Ladies' Department. £	s	d	Children's Department. £	s.	d.	Sundries. £	s.	d.
Stock as per last return ..	300	0	0	120	0	0	50	0	0	10	0	0
Add Stock received during the week—												
Head Office	65	0	0	40	0	0	20	0	0			
Branch, Oxford.	10	0	0	5	0	0						
Own purchases .	6	0	0				2	0	0			
	381	0	0	165	0	0	72	0	0	10	0	0
Less Returns to Head Office							2	0	0	2	0	0
Goods sent to Oxford ..	6	0	0	2	0	0						
	375	0	0	163	0	0	70	0	0	8	0	0
Less Weekly Sales ..	100	0	0	70	0	0	20	0	0	2	0	0
	275	0	0	93	0	0	50	0	0	6	0	0
Less Reductions in sale price allowed	5	0	0	3	0	0						
Amount of Stock on hand ..	£270	0	0	90	0	0	50	0	0	6	0	0
Actual Stock as taken ..	£269	10	0	90	10	0	48	0	0	5	19	0
Deficiency ..	0	10	0				2	0	0	0	1	0
Surplus ..				0	10	0						

Branch ....

WEEKLY RETURN FOR THE WEEK ENDING ...., 19...

Dr.	£	s.	d	£	s.	d.	Cr.	£	s	d	£	s	d.
To Cash Sales—							By Cash paid to Bank—						
Monday ..							Monday ..						
Tuesday ..							Tuesday ..						
Wednesday ..							Wednesday ..						
Thursday ..							Thursday ..						
Friday ..							Friday ..						
Saturday ..							Saturday ..						
„ Cash from Head Office ..							„ Wages ..						
„ Other receipts ..							„ Incidentals ..						
„ *Stock received during week* £.... as per advice note No ..							„ Travelling ..						
„ *Stock in hand* £.... as per schedule herewith ..							„ Postage, etc ..						
„ *Stock required* £ .. as per requisition sheet herewith ..							„ Balance in hand ..						

must be supplemented by independent stocktaking at uncertain intervals. In large concerns a separate staff is continually employed in stocktaking at the Branches. Sometimes a weekly Stock Return in the form shown at p. 895 is sent by the Branch to the Head Office. Below is a Reconciliation Statement sent to the Head Office at the conclusion of a Branch stocktaking. If the goods traded in are naturally subject to wastage, it is usual when preparing the Reconciliation Statement to allow a fixed percentage on the turnover to cover the loss.

Branch: Oxford.

STOCKTAKING, MARCH 31, 19...

	£	s.	d.
Stock at last Stocktaking, viz. January 31, 19..	2,010	0	0
Book Debts, January 31, 19..	101	0	0
	2,111	0	0
Goods sent from Head Office, January 1 to March 31, 19..	785	0	0
	2,896	0	0
Sales, January 1 to March 31, 19..	942	0	0
	1,954	0	0
Allowance for damaged stock sold at reduced prices ..	15	0	0
STOCK IN HAND..	£1,939	0	0
Goods as per return herewith	1,895	0	0
Book Debts as per return herewith	44	0	0
	£1,939	0	0

Method of Accounting.—Whether the accounts are kept by one central office or by various district offices, the method is the same. The entries are initiated by the Branch manager's weekly returns of sales, disbursements, goods received from the Head Office, and the weekly stock requisition note. A *Weekly Return* is illustrated at p. 895, and a *Stock Requisition* at p. 897. The latter is in triplicate. One copy is retained by the Branch manager, another is filed at the central warehouse as an order, and the third is returned as an invoice for the goods sent to the Branch. The Head Office debits the Branch Account in the Head Office books with the total value of the goods at selling prices, and the Branch registers itself either in its Ledger or Stock Book as responsible for the same value. If the Branch is permitted to sell damaged or out-of-date stock at less than the original selling price, a credit note should be sent by the Head Office to adjust the Branch books. Returns should be treated in the same way. Occasionally a *Branch Supplies Journal* is kept, wherein supplies to Branches are entered at both cost and selling prices, accommodation for both particulars being provided in the Branch Account in the Ledger. This form of Journal is illustrated at p. 897.

Stock Transfers.—Seeing that the transfer of stock from Head Office to Branch is a transfer and not a sale, it is clearly incorrect

Branch ....

GOODS REQUIRED BY ...., 19. .

Quantities.	Particulars of Goods.	Cost.				Selling.			
		Price per Article	Amount.			Price per Article	Amount.		
			£	s	d.		£	s.	d.

NOTE.—Selling prices only are filled in by the local manager, cost prices being unknown to him; and only selling prices appear in the copy returned with the goods. The copy filed at the central warehouse contains both cost and selling prices.

BRANCH SUPPLIES JOURNAL.

WEEK ENDING JULY 31, 19...

Date.	No. of Invoice.	Branch.	Cost Prices.																			Goods at Selling Prices.									
			Goods										Packing Materials			Trade Expenses			Folio.	Debits			Credits			Net Debit.					
			Folio.	Debits			Credits, Returns, etc			Net Debit.																					
				£	s	d	£	s	d	£	s	d.	£	s.	d	£	s.	d.		£	s	d	£	s	d	£	s.	d.			

for the Head Office to treat it as a sale. The Head Office should credit the total selling price of the goods debited to the Branch in a Memorandum Account, or in a separate column of the Sales Account, or, better still, open a Sales Account for each Branch, and there credit, at selling price, the goods sent out. At the close of a trading period, the selling value of the Branch stock in hand can be carried down, and the balance, representing the total sale value of the goods sold, can be transferred to the combined Head Office Trading Account for the whole concern. The carrying down of the unsold stock at selling prices in the "Goods sent to Branches Account" neutralises the bringing down of the same item on the opposite side in the Branch Account. The stock in hand at the Branch can be brought into the combined Trading Account at cost, just as stock is ordinarily brought down in a Trading Account. The following example illustrates these principles.

Illustration.—The Universal Tobacco Stores, Ltd., opened a branch shop in Tokenhouse Yard, E.C., debiting all supplies at selling price. Goods were supplied as under :—

		£	s.	d.
19... June	1	402	16	9
"	13	84	2	2
"	20	117	18	9
"	27	212	14	6

The Branch forwarded to the Head Office the following takings :—

		£	s.	d.
19... June	8	72	4	8
"	15	81	2	2
"	22	114	6	2
"	30	105	14	9

The Branch retained £20 in cash on June 30th and paid £15 for expenses to date out of that week's takings. Show the accounts in the Head Office books as on June 30th, assuming that stock on hand at the Branch (value, at selling price, £409 4s. 5d.) cost £302 1s. 9d.

HEAD OFFICE BOOKS.

BRANCH ACCOUNT.

Dr.		£	s	d.			£	s.	d. Cr.
19...					19				
June 1	To Goods invoiced at selling price .	402	16	9	June 8	By Cash from Branch ..	72	4	8
" 13	" Goods invoiced at selling price	84	2	2	" 15	" Cash	81	2	2
" 20	" Goods invoiced at selling price.. .	117	18	9	" 22	" Cash	114	6	2
" 27	" Goods invoiced at selling price.. ..	212	14	6	" 30	" Cash	105	14	9
					" 30	" Expenses paid at Branch	15	0	0
					" 30	" Balances down :— Stock on hand valued at selling price	409	4	5
						Cash in hand at Branch	20	0	0
		£817	12	2			£817	12	2
19...									
July 1	To Balances brought down :— Stock on hand valued at selling price .	409	4	5					
	Cash in hand at Branch	20	0	0					

GOODS SENT TO BRANCH.

DR. CR.

		£	s.	d.			£	s.	d.
19... June 30	To Transfer to Head Office.— Combined Trading Account for Branch sales for month	408	7	9	19 . June 30	By Total Goods sent to Branch, valued at selling price	817	12	2
" 30	" Stock on hand at Branch, valued at selling price, carried forward	409	4	5					
		£817	12	2			£817	12	2
					19. . June 30	By Stock on hand at Branch, valued at selling price, brought down	£409	4	5

COMBINED TRADING ACCOUNT

(HEAD OFFICE AND BRANCHES.)

DR. CR.

		£	s.	d.			£	s.	d.
					19 . June 30	By Branch Sales, Tokenhouse Yard ..	408	7	9
					" 30	" Stock on hand at Branches, valued at cost, Tokenhouse Yard	302	1	9

COMBINED PROFIT AND LOSS ACCOUNT.

(HEAD OFFICE AND BRANCHES.)

DR. CR.

		£	s.	d			£	s	d.
19 .. June 30	To Branch expenses, Tokenhouse Yard ..	15	0	0					

Further methods of recording these transactions have been dealt with in *Higher Book-keeping and Accounts,* and need not be repeated here.

CASH SALES.

In retail Branches cash sales are the rule and credit sales the exception. In order to keep a check upon cash sales, each shop assistant is given an official number and a carbon check book. These check books, containing from 50 to 100 numbered check forms in duplicate, are kept under lock and key ; and, when issuing them, the manager dates and initials them and records their issue in a Checks Issued Book. The usual form of check is too well known to need illustration. It is used as a kind of invoice to record details of a sale, and, to ensure accuracy, it is usually initialled by a shop-walker or fellow assistant before being handed to the customer. The check book is provided with an index, which is written up by the assistant as the sales are made, and totalled at the end of the day.

INDEX

Assistant No. ......

Check No	Paid £	Paid s.	Paid d.	Daily Total £	Daily Total s.	Daily Total d.
501	3	2	6			
502		19	6			
503		12	6			
Etc.				4	14	6

The tear-off check is handed with the goods to the customer, the duplicate being retained in the cash desk. These duplicates are checked against the assistants' indexes by the counting-house staff, the commission, if any, payable to the assistants is determined, and the totals are entered in the Cash Sales Book. The latter may take the following form, each page accommodating a week's sales.

CARBON CHECKS WEEK ENDING MAY 25, 19...

Assistant's No.	Check No.	Monday. £	Monday. s.	Monday. d.	Check No.	Tuesday. £	Tuesday. s.	Tuesday. d.	Check No.	Wednesday. £	Wednesday. s	Wednesday. d.

At the end of every week a return is made to the Head Office, usually on a specially printed form, giving (*a*) sales for the week, analysed departmentally if required; (*b*) disbursements; (*c*) cash paid into Bank, or remitted to Head Office; (*d*) balance of petty cash in hand. Usually payments into the local bank are advised to the Head Office twice weekly, on printed forms initialled by the Bank cashier.

When Branch managers are permitted to open credit accounts, the keeping of a proper personal Ledger should be insisted upon, and Branch book debts should be periodically reviewed by the Head Office. Book debts, the recovery of which entails legal proceedings, should be transferred to a Branch Book Debts Register kept at the Head Office.

Departmental Accounts

A business dealing in different kinds of commodities, or undertaking various forms of public service, is usually organised on a departmental basis, each department handling some special type of commodity, or rendering some particular form of service, and each being separately managed. The large retail stores are prominent examples of this form of organisation; but the same

principle of subdividing labour and control in the interests of greater effectiveness is now adopted in almost all undertakings of any size.

When departmental organisation is desirable, it is of prime importance so to organise the accounts that they will readily furnish full particulars of turnover, trading results, and cost of management of each department separately. In some few businesses, each department is regarded as a separate entity, and each keeps independent accounts, including debtors' and creditors' accounts; but this is to push the departmental principle to extremes, since it is expensive in operation and apt to result in overlapping and consequent waste of effort. Customers and supply houses usually deal with several, if not with all, departments, and the better practice is to record all departmental sales and purchases, however numerous they may be, in a single set of ledgers

This practice accords better with public convenience. Customers, as a rule, prefer a combined invoice or statement to separate documents from each department they have dealt with. Further, it is desirable from the point of view of management that the full extent of a customer's indebtedness should be known. Similarly, as regards purchases, the management should be able to survey comprehensively its dealings with other firms. These considerations do not, however, apply to nominal accounts, which are advantageously made the subject of departmental analysis. Apart from the personal ledgers and the Bank balance, departmental analysis can be usefully applied to almost any kind of book-keeping record, whether of wholesale or retail business, in order to show the extent to which each section of the business has contributed to the total profits or losses

It is sufficient in some cases if the gross profits made by the different departments can be compared, and departmental analysis, if carried beyond the items composing the Trading Account, would mislead rather than enlighten. In other cases it is both possible and necessary to go further and to show the Profit and Loss Account and net profit in analysed form, as, for example, when the departmental managers are entitled to a percentage of the net profits earned by their departments.

Analysing Gross Profit.—In order to show the gross profit of each department, the records from which the Trading Account is built up must be kept throughout the year in analysed form.

The stock held in each department must be separately kept and, if possible, separately warehoused. Purchases, sales and returns must be analysed according to the particular department concerned. This is effected by using Stock Books, Bought and Sold Journals, and Ledger accounts ruled with analysis columns corresponding to the departmental classification adopted If the departments are numerous, separate Ledger accounts can be kept for the stock, purchases, sales, and other accounts of each department.

Transfers.—It frequently happens that one department acquires stock from another. Such internal transfers should, in the first

instance, be passed through the books of the departments concerned at an agreed price, usually cost, as if they were ordinary sales. At the end of the month, or other trading period, these inter-departmental transfers must be deducted from the totals of the departmental Sales and Purchases books. Entries should then be passed crediting the Purchases Account of the original buying department, and debiting the Purchases Account of the ultimate selling department. This practice is necessary in order to avoid overstating the sales of the original buying department.

When a separate Sales Book is not kept for each department, the following is the analysed form usually employed. As many additional columns as may be necessary can be added. The Purchases and Returns books are similar. A Departmental Trading Account is also shown on p. 903.

SALES BOOK.

(Departmental Form.)

Date	Particulars.		S.L Folio	Total.			Furs			Woollen Goods		
	Name.	Copy Invoice No.										
19...				£	s.	d.	£	s	d.	£	s.	d.
Dec 1	Brown & Co.	1025	16	28	3	3	12	18	6	15	4	9
,, 1	Jones Bros	1026	38	55	0	0	65	0	0			
,, 1	Smith & Co.	1027	88	103	0	3	2	4	9	100	15	6
,, 2	Way, R. H.	1028	102	101	1	0	102	16	3	88	4	9
,, 2	Good, W. W.	1029	111	5	0	0	5	0	0			
,, 2	Miles Bros	1030	21	7	6	2	1	0	0	6	6	2
,, 2	Brown, J. H.	1031	11	14	14	2				14	14	2
	Totals carried forward to next page		£	404	4	10	178	19	6	225	5	4

NOTE.—The ruling of the Purchases Book follows exactly similar lines. As a general rule separate Purchases and Sales Books for each department are not practical, seeing that dealings with both customers and creditors frequently relate to several, or all, departments. As many more analysis columns can be included as are necessary to meet particular requirements. If the departments are too numerous to be accommodated on one opening, two or more Journals can be used. It is not necessary to enter full details of each invoice in the Sales Book; if carbon duplicating invoice books are used, each invoice and duplicate being numbered consecutively, the latter can be referred to at any time for details.

Analysing Net Profits.—To show the net profit earned by each department, it is necessary to analyse, on departmental lines, all the items in the Profit and Loss Account. This can only be done by carefully considering each item and the circumstances in which it arose. No hard and fast rules can be laid down as applicable to all cases alike. The following general rules, however, usually hold good.

(1) *Expenses directly incurred in selling and securing payment for goods should be charged against the departments in proportion to the total sales of each department.* This instruction generally covers office organisation expenses, travellers' commission and

BROWN & CO., LIMITED.

TRADING ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19...

DR.

		China.			Glass			Cutlery.			Total		
		£	s	d	£	s	d	£	s	d.	£	s.	d
19... Jan 1	To Stock on hand	12,046	18	9	7,221	19	8	9,746	18	3	29,015	16	8
Dec. 31	„ Purchases (*less* Returns) ..	61,249	18	2	34,222	14	9	6,116	2	8	101,588	15	7
„ 31	„ Gross Profit for the year carried to Profit and Loss Account..	10,341	16	0	10,406	12	6	3,118	9	2	23,866	17	8
	£	83,638	12	11	51,851	6	11	18,981	10	1	154,471	9	11

CR.

		China.			Glass.			Cutlery.			Total		
		£	s.	d.	£	s.	d	£	s	d.	£	s.	d
19. . Dec. 31	By Sales (*less* Returns) .. .	75,422	11	9	48,226	18	2	14,022	1	6	137,671	11	5
„ 31	„ Stock on hand	8,216	1	2	3,624	8	9	4,959	8	7	16,799	18	6
	£	83,638	12	11	51,851	6	11	18,981	10	1	154,471	9	11

EXPENSES JOURNAL

(Departmental Form.)

Date.	Personal Account	Details.	C B Folio	Total.			Dept A			Dept B.			Dept C.		
19...				£	s	d	£	s	d	£	s.	d.	£	s.	d.
		Brought forward		3,426	0	11	1,721	4	8	1,122	14	6	582	1	9
July 14	Harris Bros	Stationery to June 30th..	35	37	13	2	14	2	6	18	9	2	5	1	6
„ 16	Urban Gas Co.	Gas to June 30th	86	257	13	7	104	2	2	81	6	9	72	4	8
„ 17	Guardian Assurance Co.	Fire Insurance premium due June 24th ..	121	307	14	4	124	2	6	64	9	8	119	2	2
„ 17	Guardian Assurance Co.	Burglary, larceny, etc , premium due June 24th ..		76	8	7	31	0	8	16	2	5	29	5	6
„ 17	Salaries	Salaries to date		49	10	0	19	10	0	19	15	0	10	5	0
„ 17	Mead & Co.	Repairs		1	4	6				1	4	6			
		Carried forward to next page	£	4,156	5	1	2,014	2	6	1,324	2	0	818	0	7

expenses, discounts, and the cost of superintendence and administration.

(2) *Expenses directly incurred on behalf of any department should be charged to that department.* Such expenses may include the cost of advertising particular lines of goods, boxes, packing materials, insurance of stock, bad debts, special departmental salaries and commissions, the cost of special catalogues and the cost of samples (the latter only if special lines of goods have involved unusual expense), and, generally, any special expenses directly incurred for particular departments.

(3) *Rent, rates and taxes, lighting and heating, and similar expenses chargeable against the business generally should be apportioned equitably over the departments on the basis of:* (*a*) Relative warehouse, shop, or office space occupied by the department; or (*b*) relative average value of the stock held by the department; or (*c*) turnover, i.e. relative value of the departmental sales; or (*d*) the number of articles sold by each department. In simple cases the apportionment might proceed on the basis of (*c*) or (*d*), but the exact method adopted must depend largely on the special circumstances of the business, the character of the stock, and the departmental trading methods employed. Departments dealing in bulky stocks of small value cannot be treated in precisely the same way as departments selling small but costly articles. Again, new departments in course of establishing themselves need somewhat different treatment from fully established departments. There is always, in practice, ample scope for the exercise of the judicial virtues, in order that each department may bear its just, but no more than its just, share of these expenses.

(4) *Departments are sometimes charged with interest on the estimated amount of capital they employ.* The capital sum is found by adding the average value of the stock held during a trading period to the average value of the outstanding book debts for the period, and then deducting the average liabilities for the period.

(5) *Gross profit brought from the Trading Account.* This will have already been analysed departmentally. *Any other credits in the Profit and Loss Account must be allocated to the departments in accordance with the character of the credits and the respective claims of the departments.*

The necessary subdivision of the various expense accounts may be secured in one of two ways. The expense accounts may be provided with departmental analysis columns, or separate expense accounts may be opened for each department. If the latter method is adopted, total accounts may be opened for each form of expense, and the departmental analysis be effected on loose sheets of analysis paper, the results arrived at being passed into the books by periodical transfers from the total expense accounts to the departmental expense accounts.

In simple cases the use of an Expenses Journal provided with departmental analysis columns will readily furnish the departmental expense totals, but the use of such a Journal entails the

PURCHASES AND EXPENSES JOURNAL.

Date.	Invoice Number	Personal Account: Name.	Personal Account: Particulars	Cr. Folio.	Total. £	s	d	Goods Purchased. Plate Department £	s.	d	Goods Purchased. Cutlery Department £	s	d	Printing and Stationery £	s.	d	Rent, Rates, and Taxes £	s	d.	General Expenses. £	s.	d.	Insurance. £	s	d
19. July 1	397	Brown, Jones & Co.	Goods, per invoice ..	85	192	16	9	164	12	3	28	4	6												
" 1	398	Borough of West Ham	Rates for half-year ending December 31 ..	372	241	12	9										241	12	9						
" 1	399	Morrison & Co	Printing, per statement rendered	194	32	1	6							32	1	6									
" 1	400	Verity & Co. ..	Notepaper and office sundries	195	14	2	9							12	1	6				2	1	3			
" 1	401	Heape & Co. ..	Goods, per invoice ..	88	394	11	2	186	11	2	208	0	0												
" 1	402	Aaronson & Haviland	Goods, per invoice ..	89	10	4	9				10	4	9												
" 1	403	The Northern Insurance Co., Ltd.	Burglary Insurance ..	195	2	6	9																2	6	9
			Carried forward	£	887	16	5	351	3	5*	246	9	3*	44	3	0*	241	12	9*	2	1	3*	2	6	9*

* These totals are here shown as "carried forward" to the next page of the Journal If, however, there were no further purchases made or expenses incurred during the financial period the totals would be posted respectively to the *debit* of "Purchases," "Printing and Stationery," "Rent, Rates and Taxes," "General Expenses" and "Insurance" Accounts in the "Nominal," "Private" or "General" Ledger.

TRADING ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19...

DR — CR

Date	Particulars	Dept A. £	s	d	Dept. B. £	s.	d	Total. £	s	d	Date	Particulars	Dept A. £	s	d	Dept B £	s	d	Total £	s	d.
19.. Jan 1	To Stock on hand	14,246	19	3	18,122	9	9	32,369	9	0	19.. Dec. 31	By Sales (*less* returns) .	40,111	16	1	88,245	19	5	128,357	15	6
Dec 31	" Purchases (*less* returns)	28,124	19	9	62,141	2	4	90,266	2	1	" 31	" Stock on hand	14,112	16	4	19,114	1	6	33,226	17	10
" 31	" Gross Profit carried to Profit and Loss Account	11,852	13	5	27,096	8	10	38,949	2	3											
	£	54,224	12	5	107,360	0	11	161,584	13	4		£	54,224	12	5	107,360	0	11	161,584	13	4

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19..

DR. | CR.

	Date		Dept. A. £	s.	d.	Dept. B. £	s.	d.	Total £	s.	d.	Date		Dept. A. £	s.	d.	Dept. B. £	s.	d.	Total £	s.	d.
(1)	19.. Dec 31	To Wages and Salaries ..	1,524	17	0	3,354	13	5	4,879	10	5	19.. Dec 31	By Gross Profit brought from Trading Account	11,852	13	5	27,096	8	10	38,949	2	3
(1)	" "	" Travellers' Commissions and Expenses	2,016	2	1	4,435	8	7	6,451	10	8											
(2)	" "	" Advertising ..	2,825	0	0	3,122	0	0	5,947	0	0											
(3)	" "	" Rent, Rates and Taxes	510	2	1	1,530	6	3	2,040	8	4											
(1)	" "	" General Expenses .	912	16	1	2,008	3	5	2,920	19	6											
(3)	" "	" Gas, Electric Light, Fuel, Cleaning, and Sundry Warehouse Charges ..	171	2	11	513	8	9	684	11	8											
(1)	" "	" Discounts allowed ..	165	1	8	363	3	8	528	5	4											
(2)	" "	" Bad Debts	984	2	6	721	9	2	1,705	11	8											
(2)	" "	" Expenditure upon new lines of goods written off	602	0	0	1,126	8	9	1,728	8	9											
(4)	" "	" Insurance	53	5	0	67	17	0	121	2	0											
			9,764	9	4	17,242	19	0	27,007	8	4											
		" Interest charged at 5 % per annum on average amounts of capital employed in each Department during the year:— Department A £17,000 Department B 35,000 £52,000	850	0	0	1,750	0	0	2,600	0	0											
		" Balance, being net Departmental Profits carried to General Profit and Loss Account ..	1,238	4	1	8,103	9	10	9,341	13	11											
		£	11,852	13	5	27,096	8	10	38,949	2	3		£	11,852	13	5	27,096	8	10	38,949	2	3

NOTES.—Items marked (1) are analysed according to the respective turnover of the two Departments.

Items marked (2) are allocated to the actual Departments for which they were incurred.

Items marked (3) are divided according to the estimated warehouse and office space occupied by the two Departments, ¼ to Department A and ¾ to Department B.

Items marked (4) are divided according to the estimated average value of the stock held in the two Departments.

labour of journalising all expenses instead of making debit postings from the Cash Book in the ordinary course. It is usually inconvenient to insert more than a limited number of expense analysis columns in the Cash Book A form of Departmental Expenses Journal is shown on p. 903.

In small businesses it is generally convenient to combine the Purchases Journal and the Expenses Journal in one ruling as shown at p 905.

Trading and Profit and Loss Accounts in departmental form to illustrate the foregoing remarks will be found at p. 905–6

Analysis of Manufacturing Accounts.—The same broad principles are employed when analysing a manufacturer's gross and net profits as in the case of a trading concern, but the process is more complicated.

Departmental Transfers —Transfers of raw material and finished goods from one department to another need special attention. It is usual and correct to pass transfers of raw material through the departmental books of first entry at the original cost, and subsequently deduct them from the purchases of the department releasing them, and add them to the purchases of the receiving department. But transfers of finished products, for use in further manufacture, are usually passed through the books at a price which includes a moderate profit allowance to the releasing department. Care must be taken that the practice is not abused, and that only necessary transfers are made, otherwise it is clear that the profits of the business as a whole will be overstated.

Dissection of Wages.—An efficient system for dissecting wages must be devised. Wages paid on a time basis present little difficulty, since the men's pay sheets contain details of the work done. Piece-work wages must be equitably analysed. The wages of foremen can be apportioned according to the classification of the work they superintend.

Establishment Charges, etc.—Factory rent and charges, fuel, power, depreciation of machinery, and suchlike manufacturing expenses need careful dissection. Sometimes these expenses are lumped together, and the whole is divided between the departments, on the basis of the cost, or the value, or the volume of their respective outputs, whichever may best meet the needs of the case. Sometimes if each department has its own special machinery, it is possible to allocate these expenses in the form of a charge of so much per hour, or per unit of production, or to allocate them on the basis of the floor or cubic space occupied by the department.

If departmental cost accounts are kept, the results shown by the cost accounts should, in theory, coincide with those shown in the departmental Profit and Loss Account. In practice, however, there is usually a moderate, but not irreconcilable, difference between them, arising from the element of uncertainty in estimating and apportioning the expenses.

EXAMINATION QUESTIONS

1. Lamberlins, Ltd., whose Head Office is in London, have Branch retail shops in Walsall, Leicester, and Nottingham. All goods are purchased by the Head Office and are invoiced to the Branches at selling prices.

Briefly describe the system of book-keeping you would recommend for use at the Branches and at the Head Office. (*Royal Society Arts.*)

2. Show how you would combine the Balance Sheets and interchanging accounts of a concern having separate trading centres in London, Liverpool, and Manchester. (*Chartered Accountants.*)

3. A. Hartman & Co., whose Head Office is in London, are retail tobacconists. Branches have just been opened by the firm in Birmingham and Sheffield. You are asked to advise the partners as to the books and returns which are necessary to record the transactions between the Head Office and the Branches.

Submit a short report containing your instructions to the firm's book-keeper. (*London Chamber Commerce.*)

4. A company, having its Head Office in London, owns a factory in South Africa. During the year 19.., £10,000 in cash has been remitted from London to the factory, and bills for £5,000, drawn by the manager in South Africa on the Head Office, have been accepted. At the end of the year it is found that there has been a loss on the working of the factory of £2,000, which is transferred to the Head Office. Show the entries in the Head Office books recording these transactions. (*Chartered Accountants.*)

5. Messrs. Baxter & Sons, whose Head Office is in London, remitted £500 to their Manchester Branch on December 30th. The books of the Head Office and the Branch are balanced as on December 31st each year. The above-mentioned remittance did not reach Manchester until the morning of January 1st, following. How would you deal with the amount in question in the Trial Balances of the Head Office and Branch and when preparing the combined Balance Sheet of the whole business? (*London Chamber Commerce.*)

6. In the Balance Sheet of a company submitted to you for audit, you find, amongst others, the following items:—

	£
Creditors in London (Head Office)	10,000
Due to Manchester Branch	2,000
Due to Glasgow Branch	1,000
	£13,000

	£
Debtors in London (Head Office)	15,000
Due from Liverpool Branch	3,000
Due from Birmingham Branch	1,800
Due from Belfast Branch	200
	£20,000

What adjustments, if any, would you require before certifying? (*Chartered Accountants.*)

7. Weston Wheeler, a retail trader, has three shops. His books show the following particulars at the close of his financial year on March 31st:

	Bath £	Birmingham £	Bristol. £
Stock, April 1st, previous year	2,000	3,000	1,000
Wages	350	250	300
Rent	200	350	250
Sales	5,000	4,000	3,000
Stock, March 31st	2,000	4,000	1,500

His total Purchases were £10,500 and General Expenses £480. His

buyer fixes the selling price of the goods by adding to the cost price of the goods the same percentage throughout the Branches His general expenses are borne by each shop in proportion to its turnover. Show the net profits of each shop. (*Central Association Accountants*)

8. Messrs. J. Silkstone & Sons, coal merchants, of London, opened a Branch business at Maidstone on January 1st. The Trial Balance of the books of the Maidstone Branch, as on December 31st was as follows :—

TRIAL BALANCE, DECEMBER 31ST.

	£	£
Head Office Adjustment Account		1,574
Coal Sales		1,750
Sundry Debtors	640	
Horses, Carts, etc.	280	
Salaries, Rent, and Expenses	620	
Cash in hand	78	
Coal from Head Office (as invoiced)	1,748	
Sundry Creditors		42
	£3,366	£3,366

The stock of coal at Maidstone on December 31st was valued at £984.

Prepare a Profit and Loss Account showing the result of the working of the Maidstone Branch for the year ended December 31st, and draft the entries necessary to incorporate the above figures in the Head Office books. (*London Chamber Commerce*).

9. Johnson Brothers, Ltd., carry on business in London as merchants and agents. They have a branch in Panama, which deals with the various interests of the company in South and Central America, principally the management of a subsidiary company called the Santiago Mining Company, Ltd., and prospecting for new mining properties.

At December 31st, when the Trial Balance of the London books was taken out, the Panama Branch appeared as a debtor for £7,050, and the Santiago Mining Company, Ltd., as a creditor for £5,100 for cash remitted to London.

The Trial Balance of the Panama Branch was as follows :—

PANAMA BRANCH TRIAL BALANCE, DECEMBER 31ST.

	DR. $	CR. $
Aconcagua Exploration Account	345	
Furniture and Fittings	575	
San Salvador Exploration Account	2,415	
Santiago Mining Company, Ltd.	62,675	
Salaries (chargeable to Head Office)	9,775	
Trade Expenses (chargeable to Head Office)	3,450	
Cash at Bank and in hand	1,725	
Head Office—London		80,960
	$80,960	$80,960

Make such adjusting entries as appear to be necessary, and show the amounts at which the Panama Branch Account and the Santiago Mining Company, Ltd., would appear as on December 31st. (*Chartered Accountants.*)

10. A South Wales provision merchant has several Branches which are supplied from the Head Office. Each Branch has its own Sales Ledger, and hands over the total amount of cash received to the Head Office every day. In the invoices for the goods supplied by the Head Office to the Branches 25 % is added to the cost. All expenses are paid from the Head

Office From the following particulars of the transactions of the Branches raise the Ledger accounts in the Head Office books, and prepare an account showing the gross profit.

	Cardiff. £	Newport. £	Bridgend. £
Goods received from Head Office ..	5,500	4,500	3,500
Total Sales	5,200	4,300	3,100
Cash Sales	2,750	2,250	1,650
Cash received on Ledger Accounts ..	2,250	1,850	1,250
Debtors at commencement	1,555	1,665	1,350
Debtors at close	1,755	1,865	1,550
Stock at commencement	750	650	450
Stock at close	1,060	960	760

(*Chartered Accountants.*)

11. Gonno & Co., of Manchester, consign to their Calcutta house £500 worth of Manchester piece goods, drawing on Calcutta for the amount

What transactions are necessary to enable the Manchester house to receive cash for the shipment pending Realisation and Account Sales from Calcutta? How should such transactions be entered in the Manchester books? Make necessary Journal entries and post to proper accounts. The charges, freight and insurance on the consignment amount to £22, discount £10.

The goods were realised in Calcutta, and in due course the Account Sales was received as follows :—

Account Sales of 100 Bales Piece Goods ex "Star of India," from Messrs. Gonne & Co., Manchester.

	£	s.	d.	£	s.	d.
100 Bales at £7				700	0	0
Charges—						
Customs	25	0	0			
Landing	2	4	0			
Insurance	4	6	0			
Rent	2	10	0			
Commission	35	0	0			
				69	0	0
				631	0	0
Draft Paid				500	0	0
Balance herewith				£131	0	0

Enter these particulars in the Manchester books and complete the transaction, showing the final profit or loss on the shipment. (*Chartered Accountants.*)

12. The San Martin Land Company, Ltd., of London, owning and working certain pastoral properties in Argentina, closes its accounts on December 31st, and you are instructed to prepare the Balance Sheet for circulation among the shareholders. The balances submitted to you are as follows .—

London Office.

	£	s.	d.	£	s.	d.
Capital Account, 100,000 shares fully paid				100,000	0	0
Lands and Buildings	85,201	18	4			
Buenos Ayres Office	18,741	2	0			
Preliminary and Formation Expenses ..	742	0	0			
Cash in Bankers' hands	2,735	1	2			
Profit and Loss				7,420	1	6
	£107,420	1	6	£107,420	1	6

BUENOS AYRES OFFICE.

	£	s.	d.	£	s.	d.
Live Stock on hand	25,150	8	5			
Sundry Debtors	4,854	11	5			
Cash in Bankers' hands	1,326	19	1			
Stores on hand	550	2	3			
London Office				13,741	2	0
Sundry Creditors				18,383	11	4
Cash in Agent's hands	242	12	2			
	£32,124	13	4	£32,124	13	4

The authorised capital of the company is £200,000 in £1 shares. A remittance of £5,000 had been despatched from Buenos Ayres in December, but had not been received in London at the date of the Balance Sheet. Prepare the Balance Sheet in proper form, combining all the details given above. (*Chartered Accountants.*)

13. Compile the Profit and Loss Account for the year to December 31st, and the Balance Sheet (as on that date) of the A B Merchant Trading Company, Ltd., from (*a*) London Trial Balance, and (*b*) Brazil Trial Balance, combined :—

(*a*)	DR. £	CR. £
Share Capital (Nominal, £100,000) Issued, 5,000 5 % Preference Shares of £10 each, £5 called up and paid, and 50,000 Ordinary Shares of £1 each, 10s. called up and paid		50,000
London Factory	10,000	
Sundry Debtors	300	
Directors' Fees	500	
Salaries	850	
Office Rent and Expenses	150	
Office Furniture	300	
Outstanding Expenses		150
Purchases	60,000	
Sales, Brazil Shipments		80,000
Stock, January 1st	15,000	
Brazil Remittances		78,000
Brazil Local Office	113,700	
Sundry Creditors		4,000
Bank	2,550	
Bills Receivable	10,000	
Profit and Loss Account (previous year) ..		1,200
	£213,350	£213,350

(*b*)	£	£
Head Office, London		35,700
Sales		105,000
Goods from London	80,000	
Factory Building and Furniture	6,000	
Purchases	3,000	
Sundry Creditors		1,500
Salaries	2,500	
Landing Charges..	8,000	
Bank	2,000	
Sundry Debtors	27,000	
Stock, January 1st	12,000	
Office Expenses	1,700	
	£142,200	£142,200

The Stocks on December 31st are given as: London, £16,000 and Brazil, £13,000. (*Chartered Accountants.*)

14. A and B carry on business in partnership, having a Head Office in London, managed by A, and a Branch in Liverpool, managed by B. It is agreed that each shall have three-fourths of the profits of the business he manages, and that, after crediting 5 % interest on Capitals out of the remaining profits, the balance shall be divided equally. From the following Trial Balances of the books on December 31st, prepare combined Balance Sheet as at that date, and Profit and Loss Account for the year.

	London Dr.	London Cr.	Liverpool Dr.	Liverpool Cr.
	£	£	£	£
Capital—				
A		6,000		
B				4,000
Drawings—				
A	1,000			
B			800	
Stock on hand, January 1	3,296		2,618	
Sundry Debtors	2,960		3,149	
Sundry Creditors		3,170		2,036
Purchases	10,145		6,857	
Sales		13,816		8,901
Salaries and wages	1,580		924	
Furniture and Fittings	260		187	
Cash at Bank	1,486		402	
Cash in hand	18		29	
General Expenses	616		520	
Liverpool Office Account	1,168			
London Office Account				868
Rent, Rates, and Taxes	457		319	
	£22,986	£22,986	£15,805	£15,805

The value of the Stock on hand, December 31st, was · London, £3,982, Liverpool, £2,729. London had remitted to Liverpool £300 on December 30th, which was not received by the Branch until January 2nd following. No interest on drawings. (*Chartered Accountants.*)

15. A. B. & CO.'S STORES.

TRIAL BALANCE, DECEMBER 31st.

	Head Office		Manchester Branch		Liverpool Branch.		Hull Branch.	
	£	£	£	£	£	£	£	£
Stock January 1st	850		450		425		275	
Goodwill	5,000							
Freehold Premises	6,500							
A Capital Account		7,804						
B Capital Account		7,804						
Sales		7,000		5,834		5,412		4,210
Purchases	5,000		4,208		4,000		3,000	
Sundry Debtors	658		631		567		458	
Sundry Creditors				300		276		162
Trade Expenses	78		70		63		32	
Salaries and Wages..	600		450		250		250	
Rates and Taxes .. .	139		108		150		73	
Reserve for Bad and Doubtful Debts		501						
Bad Debts	38		30		22		22	
Repairs	150							
Postages	30		21		14		11	
Liverpool		197						
Manchester		166						
Hull		251						
Head Office			166		197		251	
Investments	4,000							
Income from Investments ..		320						
Cash at Bank	1,000							
£	24,043	24,043	6,134	6,134	5,688	5,688	4,372	4,372
Stock December 31st	884	—	550	—	450	—	300	—

From the above Trial Balances prepare Trading and Profit and Loss Accounts and Balance Sheet of the partnership. (*Incorporated Accountants*).

16. The Manufacturing Company, Ltd , has a Nominal Capital of 15 000 shares of £10 each ; and a Subscribed Capital of 8,000 shares, fully paid up It manufactures goods for sale at its two branches, A and B, which sell no goods other than those of the Company's manufacture. From the following Trial Balance, extracted from the books of the Head Office and Branches as on December 31st, prepare, for submission to the Directors, Trading and Profit and Loss Accounts for the Head Office and for each of the Branches for the year ended December 31st, and a Balance Sheet of the Company as a whole as on that date.

THE MANUFACTURING COMPANY, LIMITED.

TRIAL BALANCE, DECEMBER 31st.

Dr	Head Office £	s	d.	Branch A £	s	d	Branch B £	s	d.
Freehold Premises :—									
Head Office	40,000	0	0						
Branch A	10,000	0	0						
Branch B	10,000	0	0						
Goodwill	30,000	0	0						
Plant and Machinery, Head Office ..	8,000	0	0						
Furniture and Fixtures :—									
Head Office	500	0	0						
Branch A	700	0	0						
Branch B	800	0	0						
Cash at Bank	6,790	1	6						
Cash in hand	14	7	2	83	2	9	38	9	5
Stock in hand (Jan 1st) .. .	11,245	5	1	2,812	3	7	1,994	17	6
Purchases (*less* returns)	65,090	5	11						
Wages	39,651	1	11	2,419	0	0	2,622	3	4
Salaries	1,500	0	0	247	14	4	276	6	6
Carriage to Branches	1,516	14	7						
Rates and Taxes .. .	323	2	9	422	6	7	328	14	4
General Expenses .. .	517	9	2	2,016	4	6	1,796	6	8
Goods from Head Office . .				94,167	2	3	44,267	0	2
Bad Debts				1,552	8	2	746	17	11
Sundry Debtors				9,620	2	9	5,370	3	2
*Income Tax	447	10	8						
*Directors' Fees	1,000	0	0						
*Audit Fee	105	0	0						
Branch A, Current Account	301	18	3						
Branch B, Current Account .. .	3,353	0	8						
£	231,855	17	8	113,360	4	11	57,440	19	0

Cr	Head Office. £	s.	d	Branch A £	s	d	Branch B. £	s	d
Share Capital	80,000	0	0						
Sundry Creditors	11,247	13	2	541	6	6	547	12	1
Goods to Branch A	94,167	2	3						
Goods to Branch B	44,267	0	2						
Sales (*less* returns)				112,517	0	2	53,540	6	3
Profit and Loss Account (balance)	2,174	2	1						
Head Office Current Account				301	18	3	3,353	0	8
£	231,855	17	8	113,360	4	11	57,440	19	0

NOTES.—Stocks on hand valued as on December 31 were :—

	£	s	d
Head Office	10,527	4	5
Branch A	3,024	12	1
Branch B	1,927	9	4

Write off the following depreciations :—

Head Office Plant and Machinery	10 %
Furniture and Fixtures, Head Office	5 %
Furniture and Fixtures, Branch A	5 %
Furniture and Fixtures, Branch B	5 %

Create a reserve for Bad Debts of $2\frac{1}{2}$ % on the Sundry Debtors Write off £5,000 from Goodwill and carry £10,000 to Reserve All carriage on the goods sent to the Branches is paid by the Head Office.

* No apportionment of these items need be made.

(*Royal Society Arts.*)

17. The X Z Company, of London, has a Branch at Newcastle-on-Tyne. Goods sold at Newcastle are supplied from London, but no charge is made in the books as between the Branch and Head Office. On December 31st, the Branch Balance Sheet, after closing the books, was as follows:—

Dr.	£	Cr.	£
Sales Ledger Balances ..	46,700	Bought Ledger Balances	3,290
Premises Extension Account, closed to Head Office	0	Head Office	44,720
Cash in hand	50		
Cash at Bank	1,260		
	£48,010		£48,010

In the six months to June 30th next, the following transactions took place at the Branch.—Sales, £54,180; Purchases, £4,200; Wages (paid), £5,700; Salaries, £560, Directors' Fees, £200, Fire Insurance Premium for one year, £480; Cash collected on account Sales Ledger Accounts, £42,000; Discount allowed on account Sales Ledger Accounts, £2,500; Cash paid Bought Ledger Accounts, £3,800, Cash sent to London, £29,560; Premises Extension, further payments to Contractors, £1,500.

There is Cash in hand on June 30, £60, and a Bank Balance, £1,450.

Set out the Head Office Account in the Newcastle books on June 30th, to show the entries after the books are closed, and also the Branch Balance Sheet at that date, assuming it to be made up on the same lines as on December 31st. (*Chartered Accountants.*)

18. Describe a system of departmental accounts, and give its object. (*Chartered Accountants.*)

19. What are departmental accounts? What advantages are to be derived from such accounts? Give *pro-forma* Trading and Profit and Loss Accounts of a business divided into three departments, and state how you have allocated the indirect expenses of the business as between the various departments. (*Chartered Institute Secretaries*)

20. In a business consisting of many departments (e.g. Co-operative Stores), how would you suggest that the Stock Account should be kept and stocks recorded, so as to minimise the danger of a false return by the manager on the one hand, and to prevent pilfering on the part of dishonest employees on the other? (*London Chamber Commerce.*)

21. Give suitable rulings for the Sales Journal of a wholesale business comprising three departments, viz. "Mantles," "Dress Materials" and "Felts." There are two Sales Ledgers in use, viz. "Town" and "Country," and each Ledger is kept upon the self-balancing principle. (*London Chamber Commerce.*)

22. The proprietors of a large retail store which is divided into departments ask you to design a system of accounts which, whilst showing the result of the working of each department, also provides a ready co-ordination in the work of the various departments, e.g where goods have to be supplied to a customer upon the same order but from several departments, or where there is a necessary interchange of goods between departments. Write a report of not more than 200 words with your recommendations, giving samples of any rulings which you may think necessary. (*Incorporated Accountants.*)

23. If a firm having three departments desired to ascertain the separate profits of each, in what way would you suggest that the purchases and sales should be recorded? If you recommend special forms of books, give specimen rulings for any particular business. (*Chartered Accountants.*)

24. A manufacturer carrying on a business divided into departments receives orders for goods which have to be supplied in part by different departments. What entries and office work would be involved in respect of such orders from the moment of receipt to the debiting of the customer's

account in the Ledger? Rule a suitable book from which the posting into the Ledger would be made (*Chartered Accountants.*)

25. A firm of clothiers, in addition to running a factory in which their goods are made up, are in the habit of making contracts with municipal authorities for the supply of clothing and other goods which they have to purchase ready-made or partly made. They also have a retail shop, in which goods of their own manufacture, with other articles purchased elsewhere, are sold. Hitherto they have been content with a general Trading Account, to which all their purchases, expenditure, and sales have been posted, without classification in any way, but a serious diminution in their profits (not resulting from decreased sales), which they cannot account for, leads them to consider that this method is not satisfactory. Draw up a report giving your views as to an improvement in their account keeping which would meet their needs, and setting out in detail the instructions to be given to their managers and book-keepers if your suggestions are adopted. (*Chartered Accountants*)

26. From the following Trial Balance prepare the Profit and Loss Account and Balance Sheet of L. Smith, a manufacturer whose business is divided into two departments, viz. "A" and "B," for the year. These accounts are to be shown so as to reveal the result of the operations of each department separately as well as the combined result. The expenses appearing in the Profit and Loss Account are to be apportioned as between the two departments according to the net volume of sales for the year in each department.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Freehold Land and Buildings	20,500	0	0			
Plant and Machinery	14,396	0	0			
Sundry Debtors	2,914	0	0			
Sundry Creditors				23,246	9	5
Manufacturing Wages—						
Department A	3,294	9	1			
Department B	5,291	4	9			
Manufacturing Charges—						
Department A	2,046	14	2			
Department B	3,096	4	8			
Stock on hand, January 1—						
Department A	2,049	16	2			
Department B	5,629	14	3			
Salaries of Counting House Staff	2,249	10	0			
Rates, Taxes, and Insurance	635	9	9			
General Expenses and Commissions	1,524	18	5			
Capital Account, L. Smith				30,000	0	0
Cash at Bank and in hand	10,454	7	1			
Sales—						
Department A				11,324	9	5
Department B				16,986	14	1
Purchases—						
Department A	4,396	2	1			
Department B	3,294	1	9			
Returns Outwards, Department B				214	19	3
	£81,772	12	2	£81,772	12	2

Note.—The value of the Stock on hand as on December 31st was as follows. Department A, £3,092 17s. 6d. Department B, £4,924 10s. 9d

27. The Olympian Patent Medicine Company manufacture two varieties of patent medicine, viz "Hercules" ointment and "Jupiter" pills. From the following particulars prepare the Company's Trading and Profit and Loss Account for the year, showing the gross and net profits or losses on each class of manufacture:—Stock of Drugs on hand, January 1st: Ointment £600 10s.; Pills, £80 2s 2d. Stock of Bottles, Wrappers, and Labels, January 1st. Ointment, £125 15s. 6d., Pills, £15 2s. 9d. December 31st, Pur-

chase of Drugs: Ointment, £884 2s. 9d.; Pills, £246 8s. 2d. Bottles, Wrappers, and Labels: Ointment, £625 8s. 2d.; Pills, £122 8s. 4d. Manufacturing Expenses: Ointment, £1,146 2s. 6d.; Pills, £422 8s 6d. Sales: Ointment, 256,020 boxes at 6d. each, Pills, 42,114 boxes at 1s. each, Stock of Drugs, Bottles, and Wrappers on hand at December 31, 1910: Ointment, £81 18s. 11d.; Pills, £81 4s. 11d. Advertising, £2,484 9s.; Postage, Stationery, and Printing, £207 0s. 9d.; Salaries, £414 1s. 6d.; Rent Rates, and Taxes, and General Expenses, £621 2s. 3d. Apportion the four last-mentioned expenses between the two classes of goods according to the *number of boxes* of ointment or pills *sold.*

28. A company having its Head Office in London owns a factory in Australia. During the year £15,000 in cash has been remitted from London to the factory, and bills for £5,000 drawn by the manager at the factory on the London Office have been accepted by the latter. The London Office has also paid £10,000 for goods purchased by it here for export to the factory. At the end of the year the factory shows a profit on its books amounting to £3,000, which is transferred to Head Office. Show the entries in the Head Office books recording these transactions.

29. Messrs. Baxter & Sons, whose Head Office is in London, remitted £500 to their Manchester Branch on December 30th. The books of the Head Office and the Branch are balanced as on December 31st each year. The above-mentioned remittance did not reach Manchester until the morning of January 1st. How would you deal with the amount in question in the Trial Balances of the Head Office and Branch when preparing the combined Balance Sheet of the whole business? (*London Chamber of Commerce, Senior.*)

30. On January 1st the A B Company opens a Branch at Tavistock; the Branch is to keep its own books in complete form.

From the following details, show the Branch Account in the Head Office books and the Head Office Account in the Branch books: Furniture and Fittings paid for by Head Office on account of Branch, £350; Goods invoiced by Head Office to Branch (at cost), £8,500; Goods returned by Branch to Head Office (at cost), £35; Branch Rent, Rates, and Taxes paid by Head Office, £250; Cash received by Head Office from Branch, £7,000; Cash remitted by Head Office to Branch, £250; Branch Net Profit for the year, £1,000.

31. A company has a Branch at Liverpool. On December 31st the Branch forwarded the following Trial Balance of its books to its Head Office:—

TRIAL BALANCE, DECEMBER 31ST.

	Dr. £	Cr. £
Head Office		2,000
Remittances	1,100	
Sales Ledger	1,600	
Stock, January 1st	1,900	
Purchases	5,140	
Sales		8,410
Bought Ledger		1,500
Salaries	700	
General Expenses	850	
Cash at Bank	620	
	£11,910	£11,910

Stock on hand at the Branch at December 31st was valued at £1,020.

Incorporate these transactions in the Head Office books, showing Branch Account and Branch Trading and Profit and Loss Accounts in the Head Office Ledger. Also prepare a Branch Balance Sheet.

32. Referring to the previous Exercise the Head Office Balance Sheet at December 31st is as under, before bringing in any Branch profits :—

Dr.	£		Cr. £
Share Capital	10,000	Cash	3,000
Sundry Creditors	2,965	Stock	5,000
Profit and Loss Account, Balance from last year	500	Branch	2,315
Head Office Profits for year	2,000	Fixtures	150
		Debtors	5,000
	£15,465		£15,465

The Branch held £315 Cash, and had outstanding £650 in Book Debts at the end of the year. Nothing was written off the Furniture and Fixtures standing on its books at £350. The Branch Stock at the end of the year was valued, at cost, at £2,000.

From these particulars make out the Balance Sheet of the combined undertaking.

33. A company has a Branch at Canterbury. On December 31st the Branch forwards its Trial Balance to Head Office as follows :—

TRIAL BALANCE, DECEMBER 31st.

	Dr £	Cr £
Head Office Account		3,100
Remittances to Head Office	1,400	
Sundry Debtors	2,600	
Sundry Creditor		600
Stock, January 1st	1,800	
Purchases	6,900	
Sales		10,400
Rent, Rates, and Taxes	500	
Salaries	800	
General Expenses	500	
Bank Overdraft		400
	£14,500	£14,500

The Stock on December 31st was £1,200.

Incorporate these transactions in the Head Office books, showing the Branch Account, Branch Trading, and Branch Profit and Loss Account in the Head Office Ledger. Prepare a Branch Balance Sheet.

34. The London and Westminster Grocery Company, Ltd., has a retail Branch in Manchester which is supplied with all goods from London. The Branch shop keeps its own Sales Ledger, receives cash against Ledger accounts, and remits the whole of the cash received daily to the Head Office. All wages and Branch Expenses are drawn for by cheque weekly from the Head Office upon the imprest system.

From the undermentioned particulars, supplied by the Branch manager, show how the Branch accounts would appear in the Head Office books, and prepare a Profit and Loss Account for the Branch shop for the six months to December 31st.

Six months' Credit Sales, £2,387 ; Returns Inwards, £20 ; Cash received on Ledger accounts, £2,384 ; Cash Sales, £1,214 ; Stock, July 1st, £720 ; Stock, December 31st, £1,121 ; Debtors, July 1st, £1,227 ; Goods received from Head Office, £2,178 ; Rent, Taxes, etc, paid, £375 ; Wages and Sundry Expenses paid, £396. (*London Chamber Commerce, Senior.*)

35. The Western Tobacco Company, Ltd., of Bristol, has a Branch at Southampton. Goods are invoiced to the Branch at selling prices, being cost plus 20 %.

The Branch keeps its own Sales Ledger, and pays all its cash receipts into the Capital and Counties Bank, Southampton, weekly for transmission

to credit of the Company's Head Office Current Account with the Bristol Bank. All expenses are paid from Bristol.

From the following details of the Branch accounts prepare a Profit and Loss Account of the Southampton Branch for the year. Stock, January 1st (at invoice prices from Head Office, being cost to Head Office plus 20 %), £1,200; Stock, December 31st (at invoice prices from Head Office, being cost to Head Office plus 20 %), £1,680; Sundry Debtors, January 1st, £1,200, Sundry Debtors, December 31st, £1,500; Cash Sales for the year, £5,020; Credit Sales for the year, £6,500; Cash received from Ledger accounts, £6,150; Goods invoiced from London (at cost plus 20 %), £12,000; Rent, Rates, and Taxes (paid from London), £300; Salaries and Wages (paid from London), £850; Sundry Expenses (paid from London), £130; Discounts allowed to debtors on payment of accounts, £50. Debit interest at 5 % per annum against the Branch on the average amount of Capital employed by the latter during the year; this may be taken at £3,500.

36. The Southern Trading Company, Ltd., has a Head Office at London and a Branch at Southampton. From the following Trial Balances prepare a combined Balance Sheet of the whole undertaking.

LONDON TRIAL BALANCE, DECEMBER 31ST.

	Dr. £ s. d.	Cr. £ s. d.
Cash	511 12 6	
Stock on hand	2,214 9 8	
Sundry Debtors	5,616 4 2	
Sundry Creditors		314 1 9
Furniture and Fixtures	322 9 1	
Share Capital, 10,000 £1 Shares, fully paid		10,000 0 0
Profit and Loss Account—		
Balance, January 1st		111 19 6
Profit for year		711 19 8
Southampton Branch	2,473 5 6	
	£11,138 0 11	£11,138 0 11

SOUTHAMPTON TRIAL BALANCE, DECEMBER 31ST.

	Dr. £ s. d.	Cr. £ s. d.
Cash	411 12 6	
Sundry Debtors	3,112 9 5	
Sundry Creditors		2,442 1 9
Stock on hand	1,111 14 2	
London Office		1,674 1 8
Profit for year		519 12 8
	£4,635 16 1	£4,635 16 1

The difference between the London Office balance in the Branch books and the latter's balance in the London Office books is accounted for by the fact that London remitted £700 cash to Southampton on December 31st and forwarded to Southampton goods invoiced at £99 3s. 10d., both of which did not reach Southampton until January 1st following.

37. A retail trading company opens a Branch which is supplied with its stock by its Head Office. The Branch keeps its own Customers Ledger and pays its daily cash receipts into a local bank for transmission to its Head Office. The Head Office invoices all goods to its Branch at selling price and pays all Branch expenses itself

From the following particulars show the relative entries in the Branch and Head Office books, and prepare an account showing the net profit made at the Branch. The Branch was opened June 5th.

Goods supplied by Head Office to Branch, June 5th to December 31st, 1914 (invoiced at selling price), £3,050 (*Note*.—The cost price of these goods was

38. From the following Trial Balances, extracted at June 30th, from the Head Office and Branch books of the London and Provincial Produce Supply Company, Ltd., make out the Company's Balance Sheet at that date.

	Glasgow Branch.						Liverpool Branch.						London (Head Office)					
	Dr.			Cr.			Dr.			Cr.			Dr.			Cr.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Share Capital																10,000	0	0
Sundry Debtors	3,112	6	8				2,114	19	2				5,116	12	9			
Sundry Creditors				3,412	0	0				607	9	9				5,114	2	3
Stock, June 30th	4,116	19	3				3,107	12	6				6,211	14	9			
Premises	625	0	0				1,024	0	0									
Cash at Bank	164	9	2				149	8	6				1,642	8	1			
Liverpool Branch	49	8	2										4,332	10	2			
Glasgow Branch										324	8	6	5,686	13	0			
London Office				4,150	0	6				5,186	13	0						
Net Profits for year ended June 30th				511	2	3				486	1	3				911	14	6
Profit and Loss Account Balance, July 1st																111	14	2
Bills Payable																883	10	1
Bills Receivable							200	0	0				520	0	0			
Insurance paid in advance (proportion unexpired)	4	19	6				8	12	4				11	2	3			
Reserve																500	0	0
4½ % Debenture Stock, £6,000																6,000	0	0
£	8,073	2	9	8,073	2	9	6,604	12	6	6,604	12	6	23,521	1	0	23,521	1	0

Notes.—On June 30th a customer owing £275 0s. 4d. to the Glasgow Branch paid this amount to the Liverpool Branch for transfer to Glasgow; Liverpool credited Glasgow with the amount, but its advice was not sent to Glasgow until July 4th.

Liverpool remitted £500 cash to London on June 30th. This was not received by London until July 1st.

London forwarded to Glasgow on June 30th goods invoiced at £182 9s. 8d., debiting Glasgow therewith. The goods and relative advice did not reach Glasgow until July 2nd.

£2,400); Branch Cash Sales, £1,089; Branch Credit Sales, £1,601; Cash received from Debtors, £1,492; Debtors at December 31, £109; Stock on hand, December 31 (at selling price). £360 (*Note.*—Cost Price, £285), Branch Expenses paid by Head Office, £327.

39. From the following Trial Balance of Messrs. X and Y's Stores prepare a Trading Account showing the gross profits made by the three departments (A, B, and C) into which it is divided. Also prepare a Profit and Loss Account and a Balance Sheet.

MESSRS. X AND Y'S STORES.

TRIAL BALANCE, DECEMBER 31st.

	Dr. £	s.	d.	Cr. £	s.	d.
Capital Accounts—						
X				2,400	0	0
Y				1,200	0	0
Drawings—						
X	350	0	0			
Y	300	0	0			
Stock, January 1st—						
Department A	681	4	6			
Department B	121	2	2			
Department C	1,316	9	8			
Purchases (Gross)—						
Department A	2,212	4	6			
Department B	1,116	8	0			
Department C	2,949	1	1			
Sales—						
Department A				2,602	4	2
Department B				1,595	15	11
Department C				4,160	2	9
Transfers of Stock between departments—						
(From) Department A				100	0	5
(To) Department B	20	0	5			
(To) Department C	80	0	0			
Returns Inwards—						
Department A	10	0	0			
Department B	30	0	9			
Department C	110	17	1			
Wages and Salaries	411	2	2			
Advertising and Catalogues	240	4	6			
Dividends on Shares in M N Company				60	0	0
Shares in M N Company	1,000	0	0			
Sundry Debtors	559	8	9			
Printing and Stationery	12	1	9			
Sundry Creditors				349	2	5
Carriage	38	4	6			
Commission	82	9	8			
Postages, Telegrams, and Telephone	47	2	1			
Reserve for Bad and Doubtful Debts (as at January 1st)				10	0	0
Furniture and Fixtures	300	0	0			
Insurance	23	9	5			
General Expenses	84	2	9			
Cash at Bank	335	9	10			
Discounts and Allowances	46	2	1			
	£12,477	5	8	£12,477	5	8

Make the following provisions at December 31st: (1) Credit the partners with interest for the year on their Capital Accounts at 5 % per annum; no interest is to be charged on drawings. (2) Write off Bad Debts amounting to £99 8s. 9d., and thereafter increase the Reserve for Bad and Doubtful

Debts to 5 % of the balance of debts outstanding. (3) Provide for a stationery account owing at December 31st, estimated to amount to £20; (4) Write 10 % off the Furniture and Fixtures. (5) Of the £23 9s. 5d paid for Insurance Premiums, £10 relates to the period after December 31st (6) Stock on hand at December 31st : Department A, £612 4s. 9d. ; Department B, £104 2s. 2d. ; Department C, £1,112 8s. 9d. (7) A stock of Catalogues remains on hand valued at £30, the cost of which is included in the item of "Advertising and Catalogues, £240 4s. 6d."

40. From the following particulars prepare Trading and Profit and Loss Accounts showing separately the gross and net profits respectively made by the Plate and Cutlery departments of a business :—January 1st, Stock: Plate, £1,000 ; Cutlery, £1,700. Sales : Plate, £5,500 ; Cutlery, £6,200 Purchases : Plate, £3,500 ; Cutlery, £4,000 Returns Inwards : Plate, £500 ; Cutlery, £200. Stock, December 31st. Plate, £1,100 ; Cutlery, £1,200 Salaries, £942 ; Rent, Rates, and Taxes, £412 ; General Expenses, £148 ; Travellers' Commissions and Expenses, £698

Expenses are to be apportioned between the two departments according to the net sales effected by each.

41. A business manufactures china and glass. From the following particulars show the gross profit on manufacturing made by each of these two divisions of its operations for the year :—Stock, January 1st : China, £1,072 16s. ; Glass, £921 18s. 9d. Purchases for 1923 : China, £3,112 14s ; Glass, £2,116 4s. 9d Wages for year : China, £4,111 12s. 2d. ; Glass, £3,116 4s. 8d. Sales for year : China, £9,489 2s. 1d. ; Glass, £6,611 13s. 9d. Returns Inwards for year : China, £483 19s. 11d. ; Glass, £63 7s. 7d. Stock, December 31st : China, £892 1s. 1d. ; Glass, £1,112 4s. 1d.

42. The Elizabethan Stores, Ltd., carry on a business of dealing in (1) antiques and (2) china. From the following particulars show (*a*) their gross profit, and (*b*) their net profit, on each class of goods. Expenses are to be borne by the two departments according to the sales effected in each

Stock, January 1st : Antiques, £2,219 4s. 8d. ; China, £814 3s. 2d Stock, December 31st · Antiques, £2,319 2s. 2d. ; China, £717 9s. 8d. Purchases : Antiques, £4,112 16s. 9d. ; China, £1,114 2s. 6d. Sales : Antiques, £5,025 1s. 3d. ; China, £1,675 0s. 5d. Rent, Rates, and Taxes, £481 12s. 9d. ; Salaries and Wages, £411 2s. 2d. ; Electric Light and Gas, £42 6s 1d. ; Postage and Stationery, Telegrams and Telephone, £84 2s. 9d. ; Travelling Expenses, £42 1s. 4d. ; Agents' Commissions and Gratuities, £105 14s. 11d. ; Printing, £33.

43. The Bovine Publishing Company start a weekly paper, *The Ox*, and publish various books and manuals on kindred subjects ; the paper is treated as a separate department of the business. From the following details prepare accounts of the publication of *The Ox* and Book departments for the year, showing the net profit on each : *Rent, Rates, and Taxes, £201 ; *Office Printing and Stationery, £178 14s. , Editorial Salaries, *The Ox*, £450 ; Contributors' Fees, *The Ox*, £460 ; Payments to Authors, Book Department, £485. Wages and Salaries : *The Ox*, £1,385 ; Book Department, £712 Receipts from Advertisers : *The Ox*, £3,172 ; Book Department, £65. Net Sales, *The Ox*, £2,941 ; Book Department, £1,416. Value of Stock of Copies on hand, December 31st : *The Ox*, £10 , Book Department, £416. Printing and Blocks : *The Ox*, £871 ; Book Department, £412. Cost of Paper used : *The Ox*, £511 ; Book Department, £104. Cost of Binding : Book Department, £116

Note.—Items marked * are to be split between the two departments according to the total sales plus advertisement revenue derived from each.

44. The Everyouth Manufacturing Company makes a face powder known as "Gold Dust," and a hair-wash sold under the name of the "Rescusitator." From the following particulars make out the Company's Manufacturing and Profit and Loss Account for the year, showing the net profit or loss on each of these two articles : January 1st, Stock of Drugs on hand : "Gold Dust," £42 ; "Rescusitator," £181. Stock of Bottles, Boxes, and Wrappers on hand : "Gold Dust," £39 ; "Rescusitator," £163. December 31st, Purchases of Drugs, Rice Powder, and Colouring Matter for

"Gold Dust," £211; Purchases of Drugs, Distilled Water, and Colouring Matter for "Rescusitator," £312. Purchases of Bottles, Boxes, and Wrappers: "Gold Dust," £103; "Rescusitator," £124. Manufacturing Expenses: "Gold Dust," £341; "Rescusitator," £116. Advertising, £2,080 19s;* Rent, Rates, Taxes, Salaries, and other Office and General Expenses connected with distribution, £1,404.* Sales: 17,121 Boxes of "Gold Dust" at 5s. per box; 6,112 Bottles of "Rescusitator" at 5s. per bottle. Stocks on hand at December 31: Drugs, "Gold Dust," £62; "Rescusitator," £109. Bottles, Boxes, and Wrappers: "Gold Dust," £15; Rescusitator," £32.

45. From the following Trial Balance prepare in departmental form the Trading and Profit and Loss Account of the Splendax Plate and Cutlery Company. The business is divided into two departments, viz. Plate and Cutlery. Also prepare a Balance Sheet at June 30th.

TRIAL BALANCE, JUNE 30TH.

	Dr. £	s.	d.	Cr. £	s.	d.
Cash	1,112	4	6			
Goodwill	3,000	0	0			
Share Capital paid up, 3,000 £10 Shares, £5 paid				15,000	0	0
Sundry Debtors	8,111	19	4			
Sundry Creditors				3,421	12	2
Stock, July 1st previous year—						
Plate Department	5,111	11	4			
Cutlery Department	3,002	8	9			
Purchases—						
Plate Department	4,112	19	5			
Cutlery Department	5,111	4	3			
Returns Inwards—						
Plate Department	111	2	2			
Cutlery Department	36	1	3			
Sales—						
Plate Department				10,335	2	8
Cutlery Department				5,148	1	6
Salaries	1,516	14	9			
Rent, Rates, and Taxes	411	19	6			
Gas, Water, and Electric Light	111	2	3			
Discounts	51	2	9			
Printing and Stationery	162	14	3			
Postage, Telegrams, and Telephone	76	4	9			
General Expenses	211	16	3			
Carriage (on Sales)	64	3	3			
Bills Receivable	724	5	1			
Advertising	865	2	6			
	£33,904	16	4	£33,904	16	4

NOTE.—Value of Stock on hand at June 30th: Plate Department £2,119 8s. 5d.; Cutlery Department, £5,007 17s. 5d.

Expenses, except Advertising, are to be apportioned between the two departments according to their net sales. The cost of advertising is to be apportioned £660 to the Plate Department, and £205 2s. 6d. to the Cutlery Department.

46. The A B Stores, Ltd., own a retail stores divided into three departments, viz. Provisions, Groceries, and Hardware. From the following particulars show, in tabular form, the gross profit made by each department for the half-year ended June 30th :—Stock, January 1st: Provisions,

* Apportion these two forms of expense according to the number of boxes of "Gold Dust" and bottles of "Rescusitator" sold.

£25; Groceries, £346; Hardware, £111. Purchases. Provisions, £1,213, Groceries, £1,092; Hardware, £611. Sales: Provisions, £1,649; Groceries, £2,111; Hardware, £1,002. Returns Outwards: Provisions, £10; Groceries, £11; Hardware, £12. Stock, June 30: Provisions, £47; Groceries, £392; Hardware, £85.

47. The Millbay Ship Repairing and Barge Company, Ltd., possess a ship repair yard and also own barges. From the following particulars prepare accounts showing the net profit for the year on those two classes of business (*a*) before, and (*b*) after, charging interest against the two departments at $4\frac{1}{2}$ % per annum on the capital cost of the shipyard and barges respectively You may assume that the business is all done for immediate cash payment.

Receipts for Ship Repairs effected for customers during the year, £1,044; Receipts from Hire of Barges by customers, £783. Cost of Replacements and Renewals: Shipyard, £34; Barges, £21. Materials, Stores, and Supplies used in Shipyard, £211; Stores and Supplies used, Barges, £15. Wages: Shipyard, £468; Barges, £211. Fire Insurance, Shipyard, £24; Marine Insurance, Barges, £13. Employers' Liability Claims: Shipyard, £21; Barges, £22. Shipyard Repairs to Barges (to be credited to Shipyard and charged against Barges), £21; Value of Barge Hire done for Shipyard (to be credited to Barges and debited against Shipyard), £11. Depreciation: Shipyard, £48; Barges, £70. *Office Expenses, £25; *Salaries, £125; *Telephone, Telegrams, Postage, Stationery, etc., £36; *Advertisements, Commissions, and Hospital Donations, £31.

Capital Cost: Shipyard, £2,000; Barges, £1,500.

48. The Westmeath Colliery and Railway Company leases (1) the Westmeath Colliery and (2) a line of railway four miles long connecting the colliery with the Great South and East Railway. All the colliery's own coal is taken over the railway line, and similar work is done by the railway for several other collieries situate along the line. The railway possesses two locomotives but no other rolling stock.

From the following particulars make out accounts showing the net profits on the colliery and railway respectively for the year:—Colliery output: Coal sold to Public, £32,537; Coal used for Boilers (Colliery), £590; Coal supplied to own Railway Locomotives, £102. Receipts from neighbouring collieries, for haulage of their wagons to G. S. & E. Railway, £1,512, Colliery Wages and Salaries, £15,640; Pitwood Stores and Explosives (Colliery), £1,002; Repairs and Renewals (Colliery), £335; Horse Provender and Harness Repairs and Renewals, £1,060; Rent of Railway Line, £316, Colliery Royalties paid to Landlord, £2,001; Rates and Taxes: (Colliery), £411; (Railway), £105; Coal Wagon Hire and Repairs (Colliery), £1,721; Locomotive Wages, Stores, and Expenses (Railway), £285; General Expenses and Insurance: (Colliery), £102; (Railway), £19; Depreciation of Plant (Colliery), £416; Depreciation of Locomotives (Railway), £189; Amortisation of Capital Expenditure · (Colliery), £1,521; (Railway), £416; Amount chargeable against Colliery and to be credited to Railway for Coal Wagon Haulage and Wayleave for year, £1,025

49. The Ocean Waves, Ltd., owns two pleasure steamers, the *Octopus* and the *Cuttlefish,* which make trips between South Coast watering-places. The two steamers' transactions are split upon departmental lines for accounting purposes.

From the following particulars show the net results of the working of each steamer for the year:—Passenger Receipts *Octopus,* £4,500; *Cuttlefish,* £3,500. Amounts received from Catering Contractor: *Octopus,* £200; *Cuttlefish,* £180. Crews' Pay and Allowances: *Octopus,* £1,020; *Cuttlefish,* £970. Coal· *Octopus,* £290; *Cuttlefish,* £270. Stores and Supplies: *Octopus,* £120; *Cuttlefish,* £110. Pier, Dock, and Harbour Dues, etc: *Octopus,* £211; *Cuttlefish,* £176. Steamer Refitting, Repairs, and Renewals, *Octopus,* £310; *Cuttlefish,* £117. Insurance: *Octopus,* £85; *Cuttlefish,* £83. †Advertising, £245; †Office and General Expenses, £1,220; Depreciation of Steamers: *Octopus,* £650; *Cuttlefish,* £520.

* To be apportioned between the departments in proportion to their respective receipts for work done for customers

† These two items are to be allocated between the departments on a basis of gross passenger receipts.

50. A. Brown is a coal merchant, and also carries on a ticket agency. From the following particulars make out his Profit and Loss Account for the year in departmental form, showing the net profit on the two departments of his business: Stock of Coal on hand, January 1, £35; Coal Purchases, £864; Coal Sales, £1,343; Stock of Coal on hand, January 31, £62; Wages of Carmen and Coalheavers, £180; Repairs to Coal Carts and Harness, £15; Depreciation written off Horses, £24; Depreciation written off Carts and Harness, £12; *Office Rent, Rates, and Taxes, £37; *Office Salaries, £102; Postages, Telegrams, and Telephone, £17; Advertising and Posters, £12; *Depreciation of Office Furniture, £3; Commissions received on sale of Railway Tickets, £17; Commissions received on sale of Steamship Passages, £148.

NOTE.—Items marked * are to be apportioned equally between the two departments. Apportion the Postages, Telegrams, and Telephone £13 to the Coal Department and £4 to the Ticket Department, and the cost of Advertising and Posters is chargeable entirely to the Coal Department

51. Z & Co. carry on business as chemical manufacturers and makers of patent medicines From the following particulars make out their Trading and Profit and Loss Account, showing the net profits made respectively in their Chemical and Patent Medicine Departments during the year—Stock, January 1st. Chemicals Department, £104; Patent Medicines, £121. Purchases of Raw Materials · Chemicals Department, £1,418; Patent Medicines, £78. Sales to the Public: Chemicals Department, £2,419; Patent Medicines, £3,074. Manufactured Chemicals supplied by Chemicals Department to Patent Medicines Department for further use in manufacture there, £814. Factory Wages and Salaries: Chemicals Department, £832; Patent Medicines, £416. Bottles, Cases, and Labels: Chemicals Department, £37, Patent Medicines, £75. Factory Rent, Rates, and Taxes, £223; Government Duty Stamps on Patent Medicines, £50; Power, Light, and other Factory Charges, £122 Stock, December 31 · Chemicals Department, £248; Patent Medicines, £75. Office Salaries, £400; Office Rent, Rates, and Taxes, £188; Travellers' Commissions and Expenses, £214; Gas, Coal, and Electric Light (Office), £36; Printing and Stationery, £102; General Expenses, £6 1s.; Advertising, £652; Bad Debts, £35.

NOTES.—Apportion Factory Rent, Rates, and Taxes, and Power, Light, and other Factory Charges between the departments on a basis of the wages paid in each.

Apportion all Office and other non-productive expenses, except Advertising and Bad Debts, between the two departments on a basis of the sales effected by each, counting goods supplied by one department to the other for use in manufacture as being sales.

£50 of the Advertising expenses and £5 of the Bad Debts are chargeable against the Chemicals Department, the remainder relate to the Patent Medicine business.

52. Messrs. Babble & Co. publish two daily newspapers, the *Morning Screech* and the *Evening Howl*. From the following particulars prepare accounts showing the net trading result of each journal for the year:—Gross Sales: *Screech*, £51,000; *Howl*, £39,000. Returns, to be deducted from gross sales. *Screech*, £15,000; *Howl*, £4,000. Cost of Editorial Staff: *Screech*, £5,000; *Howl*, £4,000. Payments to Contributors and Correspondents: *Screech*, £22,000; *Howl*, £14,000. Payments to News Agencies for News Supplied: *Screech*, £10,000, *Howl*, £6,000. Receipts for Advertisements: *Screech*, £40,000; *Howl*, £30,000. Cost of Advertisement, Manager's Department (to be apportioned in proportion to the Advertisement receipts), £7,000. Cost of Paper used. *Screech*, £5,000; *Howl*, £4,000. Printing Department (*Salaries and Wages, £18,000; Repairs and Renewals, £1,000, Stores and Supplies, £1,000; Printing Office Rent, Rates, and Taxes, £2,000, General Expenses, £2,000; Lighting and Power, £500; Depreciation of Plant, £1,000; Sundry Expenses. £1,500), £27,000. Delivery Department: *Wages, Salaries, Motor Expenses and General Expenses, £3,000.

NOTE.—Apportion Expenditure under the headings marked * in proportion to the Gross Sales.

CHAPTER XVII

FOREIGN EXCHANGE

[NOTE.—The principles here enunciated are general principles, and it is left to the student to apply the principles to actual circumstances. For a lucid treatment of the subject of Foreign Exchange the student is referred to *The Principles and Arithmetic of Foreign Exchange*, by S. Evelyn Thomas, published by Macdonald & Evans.]

WHEN a business house has foreign branches questions of exchange necessarily arise in connection with its inter-house accounting.

The main principles already enunciated as governing the keeping of home, apply equally to foreign, branch accounts. The head office regards its branches, both home and foreign, as debtors for all remittances made to them, and as creditors for all remittances received from them, and the branches, home and foreign, treat their head office conversely.

The fact that some of the branches keep their books in local currency does not affect book-keeping principle. It only assumes practical importance when questions of profit and loss are to be determined, because the foreign money unit, in which the branch assets, liabilities, profits, and expenses are expressed, has to be converted into British currency, and either profit or loss on exchange, as opposed to a profit or loss on trading, may result from the conversion.

The Discharge of International Debts.—The student is aware that the foreign indebtedness of all countries is mainly discharged by means of bills of exchange. Bankers dealing with foreign countries draw cheques, or bills on their foreign branches or correspondents, and sell them to British importers desiring to make payments abroad. The bankers cover their drawings by buying and remitting to their branches or correspondents abroad bills of exchange drawn on the foreign country by British manufacturers to obtain payment for goods exported there. A similar process takes place in the reverse direction, and the foreign branch of a British bank, or foreign banker, acts as intermediary for the discharge of both sets of indebtedness. When we speak of "foreign exchange" we usually mean the rate ruling at any given

time for cheques or bills so drawn, or purchased; in other words, *the rate at which the money of one country is changed, or expressed, for remittance purposes in the money of another country*. This rate is called the "current rate of exchange." There is, however, another rate, termed the "par rate of exchange," which is simply, as is explained later, the exact ratio which the fine gold in the standard gold coin of one country bears to the fine gold in the standard gold coin of another country. Unlike the current rate, the par rate between any two countries having a gold standard is fixed, and does not vary.

Methods of Foreign Remittance.—The principal methods used in practice for remitting money from one country to another are as follows:—

Bankers' Telegraphic (or Cable) Transfers.—Funds are paid by the remitter into the home bank, which instructs its branch or correspondents in the foreign country, by cablegram, to pay in local currency the required sum to the person named.

Bankers' Cheques (or Sight Drafts)—These are cheques, or drafts payable on demand, drawn by a bank in one country on its branches or banking correspondents abroad, bought by a remitter, and posted to his foreign creditor.

Bankers' After Sight Drafts (3, 10, 60, or 90 *d/s*).—These are bills of exchange payable a stated number of days or months after presentation for acceptance to the foreign bankers on whom they are drawn. They are purchased from the home bank by remitters, and posted to their foreign creditors.

Trade Bills of Exchange.—These are drawn by traders abroad on banks, accepting houses, or merchants in the United Kingdom, or by British merchants on those to whom they export goods Such bills are bought principally by bankers, and used as cover for their own sales of drafts and cheques drawn by them on other countries. They may be (*a*) clean, i.e. unaccompanied by bills of lading or other documents, or (*b*) documentary, i.e. having attached to them the bill of lading, insurance policy, and (sometimes) other documents relating to the shipment against which the bill is drawn. In the latter case the documents are a collateral security for payment of the bill. If the drawers of a documentary bill are considered to be "first class," the documents are usually released on their accepting the bill. A very large part of the world's international trade is financed by means of such bills.

Post Office Money Orders (Telegraphic and Post).—These are principally used for the remittance of small sums by private persons.

Foreign Bank Notes.—These can usually be purchased at a money changer's, and are remitted by post.

Gold.—Gold coin and bar gold are final forms of international remittance when other forms have been exhausted. During the first fifteen months of the Great War the British Government transferred to the United States many millions of pounds in gold in order to redress the unfavourable rate of exchange between

Great Britain and the United States. Later it utilised other means for that purpose, one of which is mentioned in the next paragraph.

Securities.—Stocks, shares, and bonds enjoying an international market are sometimes sent from one centre to another for sale as a means of remittance. They are, however, in ordinary times, an uncertain method of discharging international indebtedness, owing to the great fluctuations in market prices to which they are subject, and the cost of insurance. During the war the British Government acquired control of many millions of pounds' worth of United States and Canadian securities held by British investors, and utilised them to correct the exchange between Great Britain and the United States, which, owing to the enormous purchases of war material from the United States by Great Britain, acting both for herself and her allies, had become extremely unfavourable to Great Britain.

Stable and Unstable Exchanges.—From a book-keeping standpoint, the monetary systems of the world can be divided into two classes, viz. those which are comparatively stable, and those which are not. Absolute stability, even if a universal monetary unit could be devised and adopted, is rendered impossible by the law of supply and demand. Even the most stable foreign currency units, such as the dollar, the franc, and the mark, constantly fluctuate to a small extent in their sterling equivalents. Some measure of variation is inevitable if, as usually is the case, the amounts due for remittance at any particular point of time between two countries are greater on the one side than on the other; but, in countries possessing currency systems known as stable, the variations in the rate of exchange move, in normal times, within somewhat narrow and fairly well-defined limits round a definite point, called the *Par of Exchange*, whereas, in countries which do not possess a stable exchange, they may, and frequently do, fluctuate widely. Countries in which commerce is most widely developed possess, as a general rule, stable rates of exchange, since business enterprise demands a stable money unit as a basis to work upon, and merchants and capitalists are naturally shy of dealing with a country the currency of which is liable to violent fluctuations in value.

The Gold Standard.—During the hundred years preceding the Great War the purchasing value of gold maintained a high degree of stability, while the purchasing power of silver fell by more than 50 %. Experience of the instability of the value of silver has led the great commercial nations of the world to adopt gold as their currency standard, and, for convenience and to prevent fraud, to coin it into pieces of a definite weight and fineness. Consequent upon a happy accident rather than as a calculated policy, England adopted the gold standard in 1816, and the principal nations of the world have, one by one, followed her example. Under stress of war expenditure, most of the great Continental nations turned from gold standards to depreciated paper currencies, but almost all have now, owing to the necessities of trade reverted to a gold basis (not necessarily the pre-war gold basis).

Countries that have adopted a gold standard do, from motives of economy and popular convenience, employ a subsidiary currency, composed of banknotes and silver, bronze or nickel token coins, but the subsidiary currency is of domestic concern only, and it owes its arbitrary value in internal exchange solely to the law of the land. The subsidiary currency plays no part in external exchanges, which are all conducted and settled on a basis of gold, except where the countries trading together have adopted silver as their standard. In England, the United States, and less widely in France and Germany, the practice of making payments by means of cheques, which are not cashed in gold, but paid into banks and offset against other cheques at the Bankers' Clearing Houses, also effects great economy in the use of gold. So, too, does the Bill of Exchange, which is collected in the same way as the cheque. The great expense entailed by the use of gold as an exchange medium makes it imperative that strict economy should be observed in its use. At the present time, gold has practically disappeared as an internal medium of exchange, its place being taken by paper money.

Effect of War on the Exchanges.—The conditions arising from the war caused almost all the principal rates of exchange to lose their stability, and to develop an incalculable capacity of variation. The causes of these fluctuations were:—

(1) The European belligerents—to a greater or less degree—checked or suspended the encashment of their banknotes in gold, and gold shipments from those countries were made impossible without Government sanction. Concurrently, the Continental nations added heavy additional issues of banknotes to their internal circulations to pay the armies and the millions engaged on war work.

(2) The mutual exchange of commodities between belligerent nations was suspended.

(3) The ordinary course of trade and trade indebtedness between those nations remaining in commercial intercourse was disturbed. (*a*) Vast purchases of war material were made by belligerents from the United States and other countries at a time when it was impossible for the belligerents to maintain the usual articles of export at their pre-war standard of volume, let alone to expand the exports to such an extent as to keep pace with their colossal purchases from abroad. Much of the war material exported by Great Britain to her allies was advanced by way of loan, whereas Great Britain's own purchases of raw, and partially, or wholly manufactured, material were, in the earlier stages of the war, largely paid for in cash or by the export of dollar investments. (*b*) The depletion of the agricultural portion of the belligerent populations to meet the exigencies of war, and the diminished harvests of the great wheat and corn-producing areas of the world, created great competition for the reduced surplus amongst the belligerents and those countries having access to the sea, and forced up the price of staple food-stuffs and raw produce. These factors tended both to make belligerent nations

debtor nations and to render it difficult for them to discharge the balances due.

As a result of these and other adverse conditions, the exchange quotations of European belligerent countries gradually fell to an extent previously beyond the power of conjecture. But as already remarked they have now been stabilised at or below the old exchange parity.

General Methods of Treatment.

There are three methods of recording transactions with foreign branches:—

(1) Assume for book-keeping purposes that a stated sum in foreign currency is the exact equivalent of a stated sum in sterling, as, for example, that $\$4.86\frac{2}{3} = £1$. This method is employed when the rate of exchange is stable.

(2) Allow the home books and the foreign branch books to run independently from one balancing period to another, and, when the figures are combined, convert the items in the foreign Trial Balance into sterling at equitable rates, varying with the nature of the items and the circumstances in which they arose. This method is employed when the rate of exchange is unstable.

(3) Although the exchange be a fluctuating one, assume an artificial parity as in (1), and make the periodical adjustments in the books necessary to correct the excess or defect in the valuations arising from the assumption.

(1) Stable Exchanges.

Mint Par of Exchange.—When dealing with a foreign country possessing a stable exchange, the book-keeping of both the British office and the foreign branch is based on the fact that the fine gold in the standard gold coin of the foreign country bears a definite ratio to the fine gold in the sovereign, which is the British standard gold coin. This ratio is determined by the currency laws of the respective countries. By British currency law, a sovereign must contain 7·988 grammes, or 123·274 grains, of gold eleven-twelfths fine. By French currency law, the nominal gold content of the franc is now laid down as 65.5 milligrammes, nine-tenths fine United States currency law enacts that a \$10 gold piece shall contain 258 grains of gold nine-tenths fine; and German currency law says that $69\frac{3}{4}$ twenty-mark gold pieces should be coined from 500 grammes of gold nine-tenths fine. A simple arithmetical sum gives the following equivalents.—

£1 = 124·213 gold francs = 4·866 gold dollars = 20·429 gold marks.

This ratio is called the *Mint Par of Exchange*, or *Exchange Parity*, and it cannot alter so long as the currency laws of the four countries remain as above. If, then, it were the practice to settle international debts by remitting gold coins, the debts would always be settled on the basis of the Mint Par rate. It

makes no difference that the gold coins may be a little below the weight and fineness prescribed by the laws, since, by those laws, the coins must be taken in the particular country of issue as being of that weight and fineness. Seeing, however, that the cost of shipping and insuring the gold would have to be borne by the remitter, the *net rate* of exchange, allowing for these costs, would be less advantageous to the remitter than the mint par rate of exchange.

Current Rate of Exchange.—International indebtedness is not, however, normally settled by remitting gold coins, but by buying and remitting bills of exchange, which represent the multitudinous exchanges of commodities and services of which commerce consists. Hence if, taking France and the United Kingdom as examples, London has at a particular time more money to receive from Paris than Paris from London, the French demand for bills of exchange payable in London will outstrip the supply of bills drawn by French merchants on London and discounted in Paris. Thus the banks themselves will be called upon to remedy the deficiency by drawing bills against the balances held by them in London, and for this service they will exact their normal remuneration. Hence the price of bills payable in London will rise, and the French remitter will have to give slightly more francs for the pound sterling than the mint par rate. Conversely, if Paris had to receive more money from London than London from Paris, the redundant supply of bills drawn on London would cause the price to fall, and the French remitter would give slightly less francs per pound sterling than the mint par. If, however, circumstances could be imagined when, at a particular moment, the amount to be remitted by Paris to London exactly equalled the amount to be received from London by Paris, then the equilibrium would result in the price of bills—Paris on London and London on Paris—closely approximating to the mint par rate. This is a very simple illustration that will serve the purpose here intended, but the student must remember that many other elements, obscure to all but those who have studied the subject intimately, enter into exchange fluctuations, besides the simple exchange of goods and services between one country and another.

Gold or Specie Points.—We have seen that it is always possible, in normal times, to ship gold from one country to another, and the shipment of gold, allowing for the cost of freight and insurance, realises a definite *net* rate of exchange. In normal times bar gold (obtained by cashing banknotes at the Bank of England), or gold bought in the bullion market, if shipped from London to Paris, will realise a *net* rate of exchange in Paris of about £1 = Fcs. 123·93, and bar gold Paris to London a *net* rate in London of Fcs. 124·55 = £1. Similarly, bar gold shipped from London to New York will realise a *net* rate of £1 = $4·85, and bar gold New York to London $4·88 = £1; bar gold London to Berlin would realise £1 = Mks. 20.33, and gold marks Berlin to London Mks. 20.52 = £1. These net rates of exchange are approximate only, since the factor determining the rate is the

cost of freight and insurance, which varies with the shipper's power of bargaining; but under the best conditions the exchange would be effected at round about the figures quoted. Now no French remitter would be willing to pay more than Fcs. 124.55 = £1 for a bill of exchange on London when it is open to him to send gold and realise that rate; neither would any British remitter pay more than £1 per Fcs. 123.93 expressed in a bill of exchange, when he can send gold and obtain Fcs. 123.93 per £1. Thus the rates £1 = Fcs. 124.55 and £1 = Fcs. 123.93 mark the approximate limits of rise and fall in the normal current rate of exchange between Paris and London. In other words, when the current rate on London as quoted in Paris is as high as Fcs. 124.55 = £1, and the current rate on Paris as quoted in London is as low as £1 = Fcs. 123.93, then the French and the British remitters begin to think of sending gold rather than buying and remitting bills of exchange. This is the theory of the matter, but theories do not always harmonise with practice. Governments can by their arbitrary actions interfere with the free play of consequence, and in an important matter like the movement of gold they do interfere. When the British Government in September 1931 prohibited the free export of gold, the English pound fell in a few days to a value representing little more than three-quarters of its Mint par exchange value in terms of dollars and francs; this event providing a striking illustration of what may happen when settlement by means of gold cannot be effected. Normally, however, these limits are the points when gold movements will begin to take place between the centres named, the gold gaining points from the British point of view being £1 = Fcs. 124.55 = \$4.88 = Mks. 20 52, and the gold losing points, also from the British point of view, being £1 = Fcs. 123.93 = \$4.85 = Mks. 20 33. Approximately, then, the extreme range of fluctuation in the current rate of exchange between any two gold standard countries does not in normal times exceed twice the cost of remitting gold from the one centre to the other.

Before the post-war reorganisation of the currencies, gold movements were almost everywhere restricted and depreciated paper currencies replaced the gold standard in most of the European belligerent nations, with the consequence that the currencies in many cases became worthless and business could not be transacted in them.

The Ratio Usually Adopted.—It is usual, in the case of a stable exchange country, to adopt the par of exchange, or the nearest round figure to it, as the fixed conversion rate for all inter-house transactions, and thus obviate the futile labour that would be involved in working out every transaction between the head and branch offices at the actual rate ruling when each took place.

Mode of Procedure.—The foreign branch will keep both its own and its Head Office Account in local currency, and provide memorandum columns on either side of the latter account for the sterling equivalent of each item therein, converted at the rate adopted. The British office will keep its accounts in sterling, and make similar provision for the insertion on both sides of the

Foreign Branch Account of the foreign equivalent of each item appearing therein. Thus the Branch Account in the Head Office Ledger, and the Head Office Account in the Branch Ledger, will be exact counterparts of each other, both as regards their sterling and their local currency columns, and if the Branch Trial Balance as a whole is converted into sterling at the agreed rate of exchange, it can be amalgamated with the Head Office Trial Balance in exactly the same way as would be followed if the branch were a home and not a foreign one. The employment of a fixed rate of exchange links the books at home kept in sterling with the

BERNE OFFICE ACCOUNT

(In London Ledger.)

[*Note.*—Mint Par for Swiss francs is £1 = Fcs. 25.2215. Fixed rate assumed, £1 = Fcs. 25.]

DR. CR.

19...		Fr.	c.	£	s.	d	19...		Fr	c.	£	s.	d
Jan 30	To Cash ..	6,000	00	240	0	0	Jan 1	By Balance ..	5,000	00	200	0	0
Feb 28	,, Cash ..	1,000	00	40	0	0	Feb 2	,, Goods	1,775	10	71	0	1
May 21	,, Cash .	10,000	00	400	0	0	Mar 3	,, Goods ..	2,037	60	81	10	1
,, 26	,, Returns ..	156	80	6	5	6	April 1	,, Goods ..	4,650	30	186	0	3
June 30	,, Cash ..	1,500	00	60	0	0	May 4	,, Goods ..	6,505	00	260	4	0
,, 30	,, Balance ..	4,857	33	194	5	10	June 3	,, Goods .	155	50	6	4	5
							,, 20	,, Bill paid by Paris ..	3,390	63	135	12	6
		23,514	13	£940	11	4			23,514	13	£940	11	4
							19 . June 30	By Balance ..	4,857	33	194	5	10

LONDON OFFICE ACCOUNT.

(In Ledger of Berne House.)

DR. CR.

19		£	s	d	Fr	c.	19...		£	s	d	Fr	c.
Jan 1	To Balance .	200	0	0	5,000	00	Jan 30	By Cash .	240	0	0	6,000	00
Feb 2	,, Goods ..	71	0	1	1,775	10	Feb 28	,, Cash ..	40	0	0	1,000	00
Mar 3	,, Goods .	81	10	1	2,037	60	May 21	,, Cash ..	400	0	0	10,000	00
April 1	,, Goods ..	186	0	3	4,650	30	,, 26	,, Returns .	6	5	6	156	80
May 4	,, Goods ..	260	4	0	6,505	00	June 30	,, Cash .	60	0	0	1,500	00
June 3	,, Goods .	6	4	5	155	50	,, 30	,, Balance ..	194	5	10	4,857	33
,, 20	,, Bill payable paid at maturity ..	135	12	6	3,390	63							
		£940	11	4	23,514	13			£940	11	4	23,514	13
19... June 30	To Balance ..	194	5	10	4,857	33							

books abroad kept in local currency, and the harmony of the two sets of books (allowing for mere matters of arithmetic) is complete.

Moreover, any balance in the Foreign Branch books can be transferred to the Head Office books, through the reciprocal account kept between the two houses, always, of course, at the agreed rate of exchange Thus, when the Foreign Branch has ascertained its profits, it can transfer them, in local currency, to the credit of the Head Office Account, and the Head Office can pass an entry through its own books, at the agreed rate of exchange, for the sterling equivalent of the profit, debiting the Branch, and crediting its own General Profit and Loss Account.

On p. 932 appear examples of (*a*) the Berne Office Account kept in the books of a London firm, and (*b*) the corresponding London Office Account kept in the books of the Berne Branch, showing the reciprocal character of the accounts. The exchange is assumed to be stable at Fcs. 25 to the £.

Profit or Loss on Exchange Account.—Since the harmony of the Home and Foreign books proceeds from the conversion of all inter-house transactions at the one invariable rate of exchange, it follows that any transactions effected at rates other than the rate adopted must nevertheless be put through the reciprocal account at the adopted and not at the actual rate, and that the difference between the two rates must be written off to a *Profit or Loss on Exchange Account*, or *Difference in Exchange Account*.

Thus, a London house, working on the fixed rate £1 = Fcs. 25, remits Fcs. 100,000 to its Berne office, at the rate of £1 = Fcs 25 23½, costing £3,962 10s. It must therefore debit its Berne office with Fcs. 100,000 at £1 = Fcs 25 = £4,000, and credit the difference of £37 5s. to Profit and Loss on Exchange Account. Similarly, if the Berne office remits London £2,000 at the rate of £1 = Fcs. 25.16, costing Fcs. 50,320, it must either debit London with £2,000 = at the fixed rate, Fcs. 50,000, and write off the difference of Fcs. 320 to Profit and Loss on Exchange Account, or, alternatively, it must debit London with the sterling equivalent of Fcs. 50,320 at £1 = Fcs. 25 = £2,012 16s , and London must, when responding to the entry, debit £12 16s. to Profit and Loss on Exchange Account being the difference between the sterling equivalent and £2,000.

Balance of Profit and Loss on Exchange Account.—When disposing of the balance standing to the credit of Profit and Loss on Exchange Account, it is wiser to carry it forward as a reserve against future exchange differences and fluctuations, or for the purpose of rectifying any under- or over-valuation of assets that may arise from exchange fluctuations, than to treat it as an actual profit. The balance of such an account can hardly be said to be a true profit, since it arises from the arbitrary assumption of a fixed rate of exchange, neither is it of the nature of trade income, unless, indeed, exchange dealing be the business carried on by the undertaking. A debit balance should be written off at once

The example on pp. 934–6 illustrates the principles explained above in reference to a country possessing a stable exchange.

2. Fluctuating Exchanges.

When a business house has a branch or branches in a country whose monetary unit fluctuates in its sterling value, the home office is, in addition to being subject to the ordinary vicissitudes connected with the problem of earning a local trading profit, always faced with uncertainty as to the extent to which the local profit, when earned, will be affected by exchange relations between the two countries.

Ordinary Book-keeping Principles Apply.—In the main, the

From the following Trial Balances extracted respectively from the London Head Office and the New York Branch books of the Anglo-American Importers and Salesmen, Ltd., at December 31, 19.., prepare Trading and Profit and Loss Accounts for each house, and a combined Balance Sheet of the undertaking. The rate of exchange employed in the accounts is the fixed rate of $49\frac{5}{16}$d per dollar.

ANGLO-AMERICAN IMPORTERS AND SALESMEN, Ltd.

TRIAL BALANCES, DECEMBER 31, 19...

London.

	Dr £	s	d	Cr £	s	d.
Share Capital ..				24,000	0	0
Reserve				5,000	0	0
Sundry Creditors				2,010	14	6
Bills Payable .				1,500	0	0
Sundry Debtors	26,241	7	7			
Cash ..	1,212	8	5			
Stock, Jan. 1st.	16,009	9	6			
Buildings ..	2,000	0	0			
Purchases ..	62,996	10	5			
Sales.. . .				65,224	18	2
New York Branch Account ..	4,109	7	6			
General Expenses	884	2	5			
Wages and Salaries	4,022	1	1			
Goods invoiced to New York (at cost) ..				22,012	6	8
Profit on Exchange ..				10	2	2
Travellers' Expenses	1,021	14	9			
Carriage on Sales	442	1	1			
Rent, Rates, and Taxes .. .	1,508	2	4			
Profit and Loss Account (Balance) ..				749	3	7
£	120,537	5	1	120,537	5	1

Stock on hand, Dec 31st, £5,822 14s 9d

New York.

	Dr $	c	Cr $	c
Sundry Debtors .	31,000	00		
Sundry Creditors ..			18,004	22
Bills Payable .. .			10,000	00
Stock (Jan 1st) .	82,421	00		
Goods invoiced from London (at cost)..	107,278	27		
Purchases	274	21		
Sales			177,244	35
General Expenses .	5,801	44		
Salaries and Wages.	10,212	66		
Rent, Rates and Taxes	4,811	25		
London Office			20,000	00
Bank overdraft ..			17,551	87
Interest	1,004	61		
$	242,803	44	242,803	44

Stock on hand, Dec. 31st, $38,024.11

NEW YORK BRANCH TRADING ACCOUNT FOR YEAR ENDED DECEMBER 31, 19. .

Dr 19 ..		$	c.	Cr 19		$	c.
Jan 1	To Stock	82,421	00	Dec 31	By Sales . ..	177,244	35
Dec 31	„ Purchases . ..	274	21	„ 31	„ Stock on hand . ..	38,024	11
„ 31	„ Goods invoiced from London (at cost) ..	107,278	27				
„ 31	„ Gross Profit carried down	25,294	98				
	$	215,268	46		$	215,268	46

NEW YORK BRANCH PROFIT AND LOSS ACCOUNT FOR YEAR ENDED DECEMBER 31, 19 ..

Dr. 19		$	c	Cr 19...		$	c.
Dec 31	To Salaries and Wages .	10,212	66	Dec 31	By Gross Profit brought from Trading Account	25,294	98
„ 31	„ General Expenses ..	5,801	44				
„ 31	„ Rent, Rates, and Taxes	4,811	25				
„ 31	„ Interest	1,004	61				
„ 31	„ Net Profit transferred to London Office Account	3,465	02				
	$	25,294	98		$	25,294	98

NEW YORK TRIAL BALANCE, DECEMBER 31, 19...

(After preparing Trading and Profit and Loss Accounts and the conversion thereof into sterling at fixed rate of $49\frac{1}{10}$d.)

	Dr $	c	Cr $	c	Dr £	s	d.	Cr £	s.	d.
Sundry Debtors	31,000	00			6,369	10	8			
Sundry Creditors			18,004	22				3,699	6	2
Bills Payable			10,000	00				2,054	13	9
Stock, 31/12/19..	38,024	11			7,812	15	4			
Bank overdraft			17,554	87				3,606	19	6
London Office A/c: Balance, $20,000 00 *Add* Profit for year, . $3,465 02			23,465	02				4,821	6	7
	$69,024	11	69,024	11	£14,182	6	0	14,182	6	0

LONDON TRADING ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19..

Dr		£	s.	d.		Cr	£	s	d.
19.. Jan. 1	To Stock on hand ..	16,009	9	6	19 .. Dec.31	By Sales	65,224	18	2
Dec.31	„ Purchases	62,996	10	5	„ 31	„ Goods invoiced to New York House at cost price ..	22,042	6	8
„ 31	„ Gross Profit carried to Profit and Loss Account	14,083	19	8	„ 31	„ Stock on hand ..	5,822	14	9
	£	93,089	19	7		£	93,089	19	7

LONDON PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19...

Dr		£	s	d.		Cr.	£	s.	d.
19 · Dec 31	To Wages and Salaries	4,022	1	1	19.. Dec.31	By Gross Profit brought from Trading Account	14,083	19	8
„ 31	„ Travellers' Expenses	1,021	14	9					
„ 31	„ Rent, Rates, and Taxes	1,598	2	4					
„ 31	„ General Expenses ..	884	2	5					
„ 31	„ Carriage .	442	1	1					
„ 31	„ Net Profit on London Trading carried forward	6,115	18	0					
	£	14,083	19	8		£	14,083	19	8

COMBINED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 19...

Dr		£	s.	d.		Cr	£	s.	d.
19.. Dec.31	To Net Profit for the year carried down..	6,837	19	3	19 . Dec.31	By London Net Profit for the year .. .	6,115	18	0
					„ 31	„ New York Net Profit for the year	711	19	1
					„ 31	„ Profit on Exchange	10	2	2
		£6,837	19	3			£6,837	19	3
19 . Dec.31	To Balance carried down	7,587	2	10	19 .. Dec 31	By Balance of Profit brought forward from last year	749	3	7
					„ 31	„ Net Profit for the year	6,837	19	3
		£7,587	2	10			£7,587	2	10
					19... Dec.31	By Balance brought down	£7,587	2	10

BALANCE SHEET AS AT DECEMBER 31, 19...

		£	s.	d.			£	s.	d.
Share Capital Issued		24,000	0	0	Buildings Account, London at cost		2,000	0	0
Reserve		5,000	0	0	Sundry Debtors—				
Bank Overdraft, New York		3,606	19	6	London .	£26,241 7 7			
Bills Payable—					New York ..	6,369 10 8			
London . ..	£1,500 0 0						32,610	18	3
New York ..	2,054 13 9				Stock on hand—				
		3,554	13	9	London	£5,822 14 9			
Sundry Creditors—					New York ..	7,812 15 4			
London	£2,010 14 6						13,635	10	1
New York ..	3,699 6 2				Cash in hand and at Bank, London		1,212	8	5
		5,710	0	8					
Profit and Loss Account— Balance from last year .	£749 3 7								
Net Profit for year	6,837 19 3								
		7,587	2	10					
	£	49,458	16	9		£	49,458	16	9

ordinary routine of inter-house book-keeping applies, whether the Parent House and its Branch are located in the same, or in different countries; or, if the Branch is a foreign one, whether the local currency is stable or unstable. The Parent House keeps its books in sterling, and treats its Branch as a debtor for all remittances in money or kind, and the Branch keeps its accounts in the currency of its domicile, i.e. either in sterling, or a stable or fluctuating foreign currency, and treats the Head Office as a creditor for all credits or remittances received.

It has been shown above that where the exchange between two countries is stable a fixed conversion rate is used and the Branch and Head Office books form the two halves of a single set of books connected throughout the year by means of the reciprocal accounts.

But when the local currency of the foreign branch is *unstable*, the Head Office and Branch books must, for the most part, be kept independently, and they cannot be combined with the Head Office books for the purpose of preparing accounts of the whole undertaking until they have been subjected to revision in the light of exchange values

Exchange and Economic Development.—As previously remarked, a stable monetary unit indicates high national economic development. Hence the pre-war currency systems of most European nations were based upon gold. Where that basis is maintained effectively, the exchange fluctuates, normally, only to a small extent. The same remark applies to the United States and to Canada, and to most of the extra-European colonies and dependencies of stable-exchange countries. In China, and in some other Asiatic countries, the basis of exchange is silver, an unstable medium. In several South and Central American states the monetary basis of exchange is silver, or paper, the latter being either depreciated, or inconvertible, or both. In countries with a depreciated currency, trade, instead of offering reasonably certain rewards to those who engage in it, is apt to degenerate into a mere gamble in exchange. There can be no certainty of contract between seller and buyer unless the seller is assured that he will

receive from his buyer purchasing power equal to the price of the goods he has sold. Hence business is discouraged.

Remittances Account.—It has already been mentioned that the British Head Office, in all cases, opens a Ledger account for each foreign branch, to which remittances to or from each branch are either debited or credited as the case may require. But, when dealing with fluctuating currencies, it is preferable to record remittances in a subsidiary *Remittances Account*, in order to relieve the main Branch Account of the detail of the remittances. If this method is adopted, all remittances will, in the first place, be posted to the Remittances Account, and the total of that account will subsequently be transferred to the Branch Account proper. Both Remittances and Branch Accounts will be provided with currency and sterling columns, and the exact amount of currency will be placed against each item The debit balance appearing in the Branch Account in the Head Office books will, in these circumstances, represent the amount invested by the Head Office in the Branch business, and any profits that may be made by the Branch the return on the investment.

Book-keeping by the Branch.—The foreign branch will conduct its book-keeping independently throughout, in local currency. Like the Head Office, it will open a Remittances Account, and also a Head Office Account, keeping both in sterling and currency. Allowing for the differences in dates, these accounts will be exact counterparts of the Head Office accounts. At the end of a trading period, the accounts must be reconciled by allowing for items in course of transit, as already explained in connection with Branch and Head Office Accounts in general

Conversion of Foreign Branch Account.—When the reciprocal Head Office and Branch Accounts have been reconciled as explained above, the Foreign Branch Trial Balance in local currency must be converted by the Head Office into a sterling Trial Balance, and, when that is done, it can be incorporated with the Head Office Trial Balance, and thus form a combined statement for the whole undertaking. But the Foreign Trial Balance cannot be converted into sterling at one fixed rate, as it could if the exchange were stable. Each item must be considered on its merits, and be converted at such a rate of exchange as, in the circumstances, is most equitable. Consequently, the Foreign Trial Balance, when converted, will not show equal debit and credit sterling totals. The two sides are bound to disagree, and to effect the necessary agreement, when all the items have been converted into sterling, the difference between the two sides must be inserted as either a profit or a loss on exchange.

Rules for Conversion.—The rules for converting the various items in the Foreign Trial Balance are as follows :—

(1) *Fixed assets must be valued at the rate which ruled at the time of their purchase, or when funds were specially remitted to pay for them.*

The reason for this is that the assets are acquired for permanent use by the Foreign Branch, and once the rate is determined it should, in ordinary circumstances, remain unaltered.

Additions to fixed assets made during the trading period, and also long term mortgages, or other fixed liabilities, should be converted on the same principle. Capital expenditure, spread over a period, may be converted en bloc at the average rate ruling for the period.

In many cases the fixed asset accounts themselves are transferred from the Branch to the Head Office books, through the reciprocal accounts. In that case they no longer find a place in the Foreign Trial Balance. Frequently this is a wise proceeding, since it permits questions of depreciation to be dealt with conveniently. The transfer must be made on the principles mentioned above. It must be understood that any depreciation which it may be necessary to make is a separate matter, and must be treated separately. If the depreciation is on a percentage basis, and the asset accounts are kept in the Branch books, the rate of conversion for the depreciation must be the same as that employed for the asset itself.

(2) *Floating assets and liabilities, held or incurred for realisation, or payment in ready money, must be converted at the rate ruling on the last day of each trading period, just as though they had actually been realised or paid at that date.*

(3) *Profit and Loss balances, or the single balance of the Profit and Loss Account, where that alone is shown, should be converted at rates closely approximate to those ruling when the profits or losses arose.*

In practice, the average rate for the period is usually employed, for conversion of the Profit and Loss balance, on the assumption that profits or losses have accrued equally throughout the period. The average rate is obtained by adding together the rates for, say, the firsts of the months comprised in the period, and dividing the total by the number of firsts.

(4) *Remittances detailed in the Remittances Account and transferred, in total, to the Head Office and Branch Accounts respectively, and the balances of the Head Office and Branch Accounts respectively, must be brought in at the actual rates at which they were made.*

The sterling Trial Balance resulting from these various conversions will, as already remarked, fail to agree until it has been adjusted by debiting or crediting the difference as profit or loss on exchange as the case may require. But since the profit or loss on exchange arises mainly in connection with the circulating assets and liabilities, it is essential, if a loss has occurred, to charge it against current revenue, or against any reserve brought forward for the purpose; and although, if a profit on exchange is shown, it is doubtless permissible to carry it to the credit of current revenue, it is more prudent to place it to the credit of a Reserve

for Exchange Fluctuations, in order to provide for possible future losses.

The following example illustrates the principles enunciated above.

From the following Trial Balances prepare the Balance Sheet of the Nictheroy Agency and Trading Company, Ltd

RIO DE JANEIRO TRIAL BALANCE, DECEMBER 31, 19 ..

	Dr	Cr
	Milreis	Milreis.
Cash in hand	1,500.000	
Cash at London & Brazilian Bank	15,075,000	
Sundry Debtors	75,390 000	
Stock on hand	60,466 500	
Sundry Creditors		32,590.400
Land and Buildings	13,241.200	
Plant and Machinery	1,141.300	
Furniture and Fittings	1,011.200	
London Office Account—		
Balance, January 1, 19.. = £6,250		100,000.000
Remittances during the year = £1,580 2s. 6d.		25,000.000
Profit and Loss Account. (Balance)		10,234.800
Ms	167,825 200	167,825.200

LONDON TRIAL BALANCE, DECEMBER 31, 19...

	Dr. £	s.	d	Cr. £	s.	d.
Share Capital				4.000	0	0
Sundry Creditors				4,198	4	6
Sundry Debtors	200	0	0			
Cash at Bank	168	2	0			
Rio de Janeiro Office Account, January 1, 19 , Ms. 100,000	6,250	0	0			
Rio de Janeiro Office Remittances during the year, Ms. 25,000	1,580	2	6			
	£8,198	4	6	£8,198	4	6

The rate of exchange may be assumed to have been as follows. At December 31, 19.., 16d. per milreis; average rate for 19 , 15½d. per milreis. The Land, Buildings, Plant, Machinery, Fixtures, and Fittings were bought when the rate of exchange was 15d. per milreis. Any profit on exchange is to be placed to a Reserve for Exchange Fluctuations Account.

[Contd. on p. 940]

Foreign Branch Ledger at Head Office.—In some undertakings a duplicate of the General Ledger of the Foreign Branch is kept at the Head Office in this country. Whether it is wise to do so in any given case depends upon the distance between the Head Office and its Branch; the effectiveness of the control exercised by the Head Office; the Branch book-keeping facilities, and other similar considerations When a duplicate of the Foreign Ledger is kept in this country, it is usually largely in total form, and involves, of course, the despatch by the Branch of summarised

duplicates of its Cash Book, Purchases, Sales, and other journals. The keeping of a duplicate Foreign Ledger by the Head Office affords a ready means of controlling the Branch, but it must be kept complete and up to date, and wholly in currency, as it would be by the Branch itself. It ranks only as a memorandum ledger,

RIO DE JANEIRO TRIAL BALANCE AT DECEMBER 31, 19.., CONVERTED INTO STERLING.

Rate at which Converted		Dr.		Cr.		Dr			Cr		
		Ms.	Rs.	Ms.	Rs	£	s	d	£	s	d
16d.	Cash in hand .. .	1,500	000			100	0	0			
16d.	Cash at London and Brazilian Bank ..	15,075	000			1,005	0	0			
16d.	Sundry Debtors .. .	75,390	000			5,026	0	0			
16d.	Stock in hand	60,466	500			4,031	2	0			
16d.	Sundry Creditors ..			32,500	400				2,172	13	11
15d.	Land and Buildings ..	13,241	200			827	11	6			
15d.	Plant and Machinery ..	1,141	300			71	6	7			
15d	Furniture and Fittings	1,011	200			63	4	0			
Actual	London Office Account			125,000	000				7,830	2	6
15½d.	Profit and Loss Account			10,234	800				660	19	11
	Ms	167,825	200	167,825	200	£11,124	4	1	10,663	16	4
	Profit on Exchange ..								460	7	9
						£11,124	4	1	11,124	4	1

BALANCE SHEET AT DECEMBER 31, 19...

LIABILITIES.		£	s	d	ASSETS		£	s.	d.
Share Capital		4,000	0	0	Cash in hand and at Bank—				
Sundry Creditors—					London . ..	£168 2 0			
London . ..	£4,198 4 6				Rio	1,105 0 0	1,273	2	0
Rio	2,172 13 11	6,370	18	5	Sundry Debtors—				
Profit and Loss Account		660	19	11	London	200 0 0			
Reserve against Exchange fluctuations		460	7	9	Rio	5,026 0 0	5,226	0	0
					Stock on hand, Rio .. .		4,031	2	0
					Land and Buildings, Rio ..		827	11	6
					Plant and Machinery, Rio ..		71	6	7
					Furniture and Fittings, Rio .		63	4	0
£		11,492	6	1	£		11,492	6	1

NOTE.—The published Balance Sheet must state the basis of valuation of fixed assets and other details to comply with the *Companies Act*, 1929

and forms no part of the Head Office accounting system. Such a ledger can be kept for any Branch, no matter what the local exchange conditions may be.

3. Fluctuating Exchange assumed to be Stable.

In some cases it is convenient, even though the exchange is unstable, to assume a fixed rate, and to conduct the book-keeping on that assumption, in the way already described as applicable to a stable exchange. This method does not always give such exact results as would be obtained by treating the foreign currency for what it is, viz. unstable, but provided periodical revaluations are made, should the actual exchange rate greatly differ from the rate assumed it furnishes in many cases a fair working result.

By this method all transfers of funds or credits between the Head and the Branch Offices are passed through the Remittances Account in the Head Office books at the fixed rate adopted, any difference between the *adopted* and the *actual* cost or proceeds of any particular item being debited or credited as the case may require to Profit or Loss on Exchange Account. The balance of the latter account needs specially conservative treatment.

Treatment of Balance of Profit and Loss on Exchange Account.—Reference should be made as far as possible to the particular transactions between the Head Office and Branch which gave rise to the nominal profit or loss on exchange and the latter should be apportioned over the transactions. For example, nominal profit on exchange arising from remittances abroad to pay for the goods traded in or to meet ordinary working expenses, should be added to the gross or net trading profit remitted from the Branch at the end of the trading period; or, alternatively, applied to the reduction of the debits which appear in the Trading or Profit and Loss Account. Similarly, if the profit arises from remittances to defray capital expenditure, it should go to reduce such expenditure, and must not be used in relief of revenue items. Nominal losses on exchange need like, but converse, treatment. Concurrently, the general course of the exchange must be watched, and the fixed rate adopted for book-keeping purposes revised in case of need.

Branch Ledger at Head Office.—When, in dealing with an unstable exchange, the adoption of a fixed rate is justified, it is often possible, by keeping at the Head Office a local currency Ledger for Branch transactions, to relieve the local manager from the necessity of keeping and sending to the Head Office anything more elaborate than monthly cash and store returns, and similar simple statements. This is frequently an advantage, as, e.g., in the case of some mining and plantation companies, where there is no proper book-keeping staff at the local office. The Branch Ledger in local currency kept at the Head Office replaces the Ledger which the local office would otherwise have to keep. The method of amalgamating the Head Office Ledgers at balancing times follows the lines already laid down, the only difference being the domicile of the book.

In mine accounts the statements sent must show clearly the apportionment, as between current revenue and capital expenditure, of the cash and stores disbursed. In the case of stores, the return should take the form of a monthly debit and credit summary showing the stores received and issued, and this must be duly balanced and supported by detailed lists of the stores issued.

Plantation returns should give full details of the cash payments made and stores issued, and show which of them relate to the crop account for the period and which to capital expenditure.

The following forms (see pp. 942–3) illustrate the cash and stores accounts of a mine, the book-keeping in connection with which is done in London, on the basis of an assumed fixed rate of exchange. Plantation statements are sometimes drawn up on similar lines.

THE KINTRANG GOLD CONCESSIONS, LIMITED.

MANAGER'S LOCAL CASH ACCOUNT FOR THE MONTH OF DECEMBER, 19...

Receipts

Date.	From whom Received.	From what Account Received	Currency. $	c	Folio	£	s.	d
19... Dec. 1	Balance from last month		5,000	00				
„ 5	Bank of Singapore	Sales of Gold .. .	5,125	00				
„ 11	Bank of Singapore	Sales of Gold ..	374	00				
„ 26	Bank of Singapore	Sales of Gold . .	1,075	00				
„ 31	Bank of Singapore	Remittance from London Office	5,000	00				
			$16,574	00				

Payments.

Date.	To whom Paid	For what Account Paid	Currency. $	c	Folio	£	s.	d
19... Dec. 5	C Brown	Chemist's Salary for November ..	250	00				
„ 15	Cash, to Manager .	Wages for fortnight ended 14th per wages sheets enclosed . .	2,010	00				
„ 17	Kay Cong & Co. ..	Stores purchased November 15th ..	650	00				
„ 18	Wee Kee & Co. .	Stores purchased .	15	00				
„ 20	Manager ..	Petty Cash . .	50	00				
„ 26	Government of Straits Settlements . ..	Rents and dues on properties for year 19	3,575	00				
„ 30	Rawlings & Co	Legal expenses.. ..	30	00				
„ 31	Balance carried to next month (as certified by the Bank of Singapore)		9,994	00				
			$16,574	00				

Certified as correct, C D, *Accountant.*
E F, *Manager.*

NOTE.—Sterling columns are provided in the above for use in concerns which convert each item into sterling. The conversions may, in such case, be effected either at the local office or at the Head Office in London. Where, as is very often preferable, a local ledger is kept in London in currency only, the above account forms a loose leaf cash account from which that ledger can be posted: it can also be used as a loose leaf *sterling* local cash account for ledger posting purposes if all items are converted into sterling in the columns provided.

STORES ISSUED DURING THE MONTH OF DECEMBER, 19 ..

		Details.	Chargeable as Capital Expenditure. Currency		Sterling			Chargeable as Revenue Expenditure Currency		Sterling.		
19			$	c	£	s.	d.	$	c	£	s	d
Dec	1	Ropes and pitwood, Shift 1	15	20				1,045	90			
,,	5	Fuses, ropes, pitwood, and explosives, Shift 1	80	00				234	90			
,,	9	Fuses, ropes, pitwood, and explosives, Shift 2	342	00				121	10			
,,	11	Small tools and timber, per list, Shifts 1 and 2; ropes, sand, and pitwood, Shift 2	422	80				716	80			
,,	15	Small sundries, Shifts 1 and 2	19	20				14	20			
,,	17	Small sundries for engine-house repairs	5	60				100	00			
,,	25	Small sundries for engine-house repairs	2	30				191	00			
,,	29	Oil and lubricants engine-room	4	90				45	60			
,,	31	Fodder for ponies, Stable and engine-room supplies	261	00				520	50			
		Totals, as given in summary for month	$1,153	00	£115	6	0	$2,990	00	£299	0	0

Certified as correct A B, *Storekeeper* C D, *Accountant* E F, *Manager*.

SUMMARY OF STORES FOR THE MONTH OF DECEMBER, 19...

STORES RECEIVED	Currency		Sterling			STORES ISSUED.	Currency		Sterling		
	$	c	£	s	d		$	c	£	s	d
To Balance of Stores on hand at December 1, 19..	1,000	00	100	0	0	By Stores returned to Settlers	15	00	1	10	0
,, Stores received from London *ex* s s. *India*	2,050	00	205	0	0	,, Stores used during month—					
,, Stores purchases locally	2,110	00	211	0	0	(*a*) In obtaining output from mine (chargeable to Revenue Account)	2,990	00	299	0	0
						(*b*) In mine development (chargeable as Capital Expenditure)	1,153	00	115	6	0
						,, Balance of Stores on hand at *close of month*	1,002	00	100	4	0
	$5,160	00	£516	0	0		$5,160	00	£516	0	0

Certified as correct, A B, *Storekeeper* C D, *Accountant* E F, *Manager*.

NOTE —In the above illustration the dollar (worth 2s) is used for the local currency Where a local ledger is kept in London in local currency only, the columns for sterling are not necessary.

BRANCH CAPITAL EXPENDITURE—FLUCTUATING CURRENCY.

When the parent undertaking is engaged in constructing fixed assets in a country where the currency fluctuates violently, it is often essential to keep the capital expenditure accounts in the home books and in sterling, and to transfer all such expenditure from the Branch to the Head Office books at short periodical intervals. In this way the Branch books are relieved of capital assets which, to a considerable extent, are protected from exchange fluctuations. The only balances then remaining on the Branch books are those representing floating assets and liabilities, all of which, with the possible exception of the Materials Stock Account, are properly subject to the course of the exchange.

This plan necessitates no very special book-keeping features. A Capital Expenditure Account should be kept in local currency in the local books, to which all capital expenditure, cash or materials should be debited. Memorandum columns can be added to the account for inserting either the actual exchange rate, or the sterling figure at the correct rate, for each item, or both.

At the end of the fixed interval, e.g. a month, the total debit shown in local currency on the Foreign Branch's Capital Expenditure Account should be converted, either at the actual rates used for its component items, or at the average of those rates, and transferred from that account to the debit of Head Office Account A detailed statement of the total debit should be sent to the Head Office for incorporation in its books, by means of a corresponding credit entry in the Branch Account and a debit to the Capital Expenditure Account.

All conversions, including the charging back of Capital Expenditure, should be effected at rates as closely approximate as possible to the actual rates experienced, i.e. either at the actual rate or the averaged rate for the period. This will involve, as provided for above, keeping notes of the actual exchange rates experienced.

Local Stores Account in Sterling.—It is sometimes found useful to insert against each item in the Stores and Materials Account, kept in the local currency ledger, its sterling equivalent Stores can then be issued on the basis of sterling cost, and the monthly sterling total to be debited to the Head Office is easily determined. The sterling figures are then the governing figures of the Stores Account, although the currency figures are necessarily employed to prepare the general Trial Balance of the Branch Currency Ledger. Each receipt or purchase of stores is debited in sterling and in currency, the conversion rate being the rate at the time of purchase. Each issue of stores, whether for local revenue expenditure or for capital expenditure on behalf of the Head Office, is credited at its sterling cost, the local currency figures inserted being the equivalent of that cost at the rate of exchange on the day of issue. The sterling equivalent of stores issued for local revenue purposes is of no interest apart from the Stores Account, and such items find their way to the local Profit and

Loss Account in currency only. When balancing the Stores Account, the sterling balance in the memorandum columns should be inserted and extended to the currency columns at the rate ruling on the last day of the period covered by the account. The sterling columns will thus agree, but the currency columns will show a difference on one side or the other, which must be written off, in currency only, to the debit or the credit of Head Office Account. and thus eliminated. The Head Office will respond to the entry in currency only, and since the currency columns of the Head Office books are only of statistical interest, the disappearance of the difference is of no consequence.

The above principles are illustrated by the subjoined example:

Illustration.—The Chilian Construction Company supplies water to a local town on a small scale, and is also constructing works for a large-scale supply.

From the following particulars show the Stores Account (on a sterling basis), and the Head Office and Capital Expenditure Accounts, for the first quarter of 19... Capital Expenditure (including Stores used thereon) is transferred to the Head Office books at the close of each month at the average rate of the month.

19...	
January 1st, Balance due to Head Office	£3,000 $60,000.
Stores received from Head Office :—	
January 1st, per s.s. *Ichanga*	£100, rate 10d. per $.
February 14th, per s.s. *Oamaru* .. .	£200, rate 10d. per $.
March 6th, per s.s *Chenganga*	£187 10s. rate 9d. per $.
Stores bought locally :—	
January 13th	$500 at rate 11d. per $.
Remittance from Head Office :—	
Per Bank of Chile, March 1st	£1,000, exchange 1s. per $.

	Month.	Cash disbursed for Construction Wages.	Sterling Value of Stores used on Construction.
10d. per $	January	$9,600	£50
10d. per $	February	$7,200	£60
1s. per $	March	$4,000	£200

Stores used for Revenue Purposes :—

January £10

Rate of exchange, March 31, 19.., 1s. per $.

Convert the Stores used and the Construction Expenditure at the average monthly rates.

Write off the currency difference on the Stores Account to the Head Office Account. [For solution see p. 946.]

Dual Currency Systems.

In a few countries two forms of money are in circulation, or, at any rate, in book-keeping use; one a gold unit of stable exchange value, the other a silver unit, or depreciated paper, possessing, in some cases, a reduced but fixed gold conversion value. In Argentina, e.g., a gold dollar (peso) worth 3s. 11½d. has circulated side by side with depreciated paper dollars worth 1s. 8¾d., the one currency being nominally exchangeable for the other at a Government Cash Conversion Office at the rate of 2·2727 to one. These somewhat exceptional conditions have arisen from a plan to stabilise a depreciated paper currency on a lessened gold basis. At present, only the "paper" peso is in circulation, and, in practice,

STORES ACCOUNT.

Dr.		Rate per $.	£	s	d	$	c.			Rate per $	£	s.	d	$	c. Cr.
19... Jan. 1	To Stores received from London per s.s *Ichanga*	10d.	100	0	0	2,400	00	19... Jan. 31	By Stores used for Capital Expenditure	10d	50	0	0	1,200	00
„ 13	„ Stores purchased locally	11d.	22	18	4	500	00	„ 31	„ Stores issued for Revenue Expenditure	10d	10	0	0	240	00
Feb. 14	„ Stores received from London per s s *Oamaru*	10d.	200	0	0	4,800	00	Feb 28	„ Stores used for Capital Expenditure	10d.	60	0	0	1,440	00
Mar. 6	„ Stores received from London per s s *Changanga*	9d	187	10	0	5,000	00	Mar 31	„ Stores used for Capital Expenditure	1s	200	0	0	4,000	00
								„ 31	„ Balance of Stores on hand . .	1s	190	8	4	3,808	33
								„ 31	„ Difference on currency columns *transferred to Head Office Account*					2,011	67
			£510	8	4	$12,700	00				£510	8	4	$12,700	00
19... April 1	To Balance brought down	1s	£190	8	4	$3,808	33								

CAPITAL EXPENDITURE ACCOUNT.

Dr.		Rate per $	£	s	d.	$	c.			Rate per $	£	s.	d	$	c. Cr.
19 Jan 31	To Cash disbursed for construction wages, January	10d	400	0	0	9,600	00	19 Jan. 31	By Transfer to Head Office, Capital Expenditure for January . .	10d	450	0	0	10,800	00
„ 31	„ Materials used for construction, January	10d	50	0	0	1,200	00	Feb 28	„ Transfer to Head Office, Capital Expenditure for February	10d.	360	0	0	8,640	00
Feb 28	„ Cash for construction wages, February	10d.	300	0	0	7,200	00	Mar 31	„ Transfer to Head Office, Capital Expenditure for March	1s	400	0	0	8,000	00
„ 28	„ *Materials for construction, February*	10d.	60	0	0	1,440	00								
Mar 31	„ Cash for construction wages, March	1s	200	0	0	4,000	00								
„ 31	„ Materials for construction, March..	1s.	200	0	0	4,000	00								
		£	1,210	0	0	$27,440	00			£	1,210	0	0	$27,440	00

HEAD OFFICE ACCOUNT.

Dr.		Rate per $	£	s.	d	$	c			Rate per $	£	s	d	$	c Cr.
19 . Jan 31	To Capital Expenditure for month ..	10d	450	0	0	10,800	00	19 .. Jan 1	By Balance		3,000	0	0	60,000	00
Feb 29	„ Capital Expenditure for month ..	10d	360	0	0	8,640	00	„ 1	„ Stores per s.s. *Ichanga*	10d	100	0	0	2,400	00
Mar. 31	„ Capital Expenditure for month ..	1s.	400	0	0	8,000	00	Feb 14	„ Stores per s s *Oamaru* . .	10d	200	0	0	4,800	00
„ 31	„ Currency difference on Stores Account charged to this account ..					2,011	67	Mar 1	„ Cash per Bank of Chile . ..	1s	1,000	0	0	20,000	00
„ 31	„ Balance carried down		3,277	10	0	62,748	33	„ 6	„ Stores per s s. *Chenganga* ..	9d	187	10	0	5,000	00
		£	4,487	10	0	$92,200	00			£	4,487	10	0	$92,200	00
								19 .. April 1	By Balance brought down	£	3,277	10	0	$62,748	33

BANCO DE LA NACIÓN ARGENTINA.

PROFITS ET PERTES.

EXERCICE 19...

OR		Débit.	Crédit
Commissions—Solde		—	3.208,85
Escomptes—Echus		—	87 153,67
Intérêts—Echus		—	103 965,51
Change—Bénéfices		—	671.276,76
Metallisation—Benéfice		—	86,94
Effets en souffrance—Amortissement		—	166,23
Bénéfice		865 857,96	
		865 857,96	865 857,96
PAPIER.			
Commissions—Solde		—	1.734 587,81
Escomptes—Echus		—	28.662 201,12
Loyers des propriétés de la Banque		—	46 109,51
Conversion—Bénéfices en or $865.857 96 à 004		—	1 967.859,—
Fonds de Prévoyance et Assurances—Solde		—	3.500 000,—
Frais généraux—Solde		9 051.715,64	—
Frais judiciaires—Solde		301.946,73	—
Intérêts—Echus		7.262 159,72	—
Meubles et accessoires—Amorti 20 %		488 819,—	—
Caisse—Différence		7 234,88	—
Crédits à percevoir		3.572.567,26	—
Effets en souffrance		—	—
Epuisement du portefeuille et quitance	16 177 166,99	—	—
Encaissé	950 852,78	—	—
		15 226 314,21	—
		35.910 757,44	35 910 757,44

NOTES.—The balance of "gold profits" $865,857 96 is converted into paper at 44 centavos gold to 1 paper peso (m/n) and is then carried into the "paper" Profit and Loss Account at $1,967,859.00 To this balance is added $3,500,000.00, representing a reserve made for contingencies in former years and now written back.

BILAN DU SIÈGE CENTRAL ET SUCCURSALES AU 31 DÉCEMBRE 19...

ACTIF			Or.	Papier.
Correspondants à l'Etranger			8 206 924,83	—
Avances sur c/c., et cautionnements			256 901,04	50.582 375,41
Effets à l'encaissement			—	3.268 274,40
Crédits à percevoir garantis			—	19 816.707,45
Portefeuille et reescompte			667 465,04	443,077,756,63
Effets en souffrance			1 832,72	20.865 034,86
Immeubles			—	19.522 500,85
Cédules Hypothèc, Nationales Série A			1,937.650,—	—
Fonds Publics Nationaux, Loi 4 973			—	1.283.792,—
Mobilisation da Funds de Conversion, Loi 9479			20.000 000,—	—
Meubles et accessoires			—	1.959 958,55
Intérêts (à échoir)			401,85	552 418,92
Métallisation			—	12.200 597,92
Caisse			28.641 226,04	194 147.851,60
			59 712 401,52	768.267 268,59
PASSIF.				
Capital			—	128 000.000,—
Fonds de Réserve			14.565 407,14	—
Fonds de Conversion, Loi 3871			30 000 000,—	—
Conversion			5 407 863,08	—
Mobilisation du Fonds de Conversion, Loi 9479			—	45.454 545,45
Dépôts	Or	Papier	—	—
A vue et à échéance fixe	5.020.432,20	499.921.112,14	—	—
Judiciaires	95 648,55	41.149 516,42	—	—
En garde (Chambre de compensation)	4 607 212,66	42 242.519,09	9.723 293,41	583 313.147,65
Escomptes (à échoir)			10 520,63	5 333 834,87
Sucursales; "Opérations à reporter"			5.317,26	6 165 740,62
			59 712 401,52	768.267.268,59

all transactions are recorded only in the "paper" peso. For external transactions it is necessary to convert the gold value at the fixed rate.

In conditions like these it is necessary for book-keeping purposes to distinguish between gold and paper transactions, and, if transactions take place indifferently in either currency, it may be necessary to employ two separate sets of books, one for gold and one for paper dollars. The problem then is the quite ordinary one, already elucidated, of keeping in harmony a set of books in a stable currency and another set in a different and, possibly, an unstable currency, the only variation being that the two sets of books will relate to different sets of transactions by the same office, instead of by two different offices wide apart.

On page 947 is the Profit and Loss Account and Balance Sheet of the Argentine National Bank prepared on dual currency lines. The figures in the two sets of money columns (gold and paper) represent entirely different sets of transactions, assets, and liabilities.

Capital Expenditure and similar accounts are sometimes stabilised by keeping them in a separate set of Branch books in stable exchange currency, quite apart from the ordinary system of book-keeping in local currency. The employment of separate sets of books in different monetary units for the different sections of the business follows the lines already laid down, and involves no new principles. But this method entails additional labour, which in many cases can be avoided, since adequately stable figures relating to capital expenditure can be arrived at by adding sterling memorandum columns in the local currency books, in the manner already explained.

EXAMINATION QUESTIONS.

1. What do you understand by "exchange" as between countries? Explain why the rate of exchange between two countries fluctuates from day to day. (*Chartered Accountants.*)

2. Describe briefly how international trade dealings are settled. (*Royal Society Arts*)

3. Briefly describe the influence which causes fluctuations in the rate of exchange between two countries. (*Royal Society Arts*)

4. H E. Richardson & Co., of London, desire to remit £396 8s. 6d. to Hokoashi & Co., of Kobé, Japan. Describe three different methods of effecting the remittance which are open to Richardson & Co. (*Royal Society Arts.*)

5. Briefly explain the expression "par of exchange." (*Royal Society Arts.*)

6. "Buy high, sell low; the better the bill, the lower the rate." Explain the meaning of this maxim in foreign exchanges. (*Chartered Accountants.*)

7. Explain the mutual relations of the rates of discount ruling in any two given monetary centres and the rates of exchange between such centres. (*Chartered Institute Secretaries.*)

8. In certain circumstances, rates of exchange all over the world have been subject to violent fluctuations Explain a system whereby the comparison of the Annual Trading Account figures may be preserved and the item "Loss in Exchange" eliminated (*Incorporated Accountants*)

9. What is the "mint par of exchange"? Explain why it varies from the actual rate of exchange from time to time. (*Chartered Accountants.*)

10. Explain the term "gold point" (*Royal Society Arts.*)

11. In March, 19 . , the following were quotations in London of various foreign exchanges, state the meaning and the value of £100 sterling in each case: Paris, 123 91; Rome, 92.82, Buenos Ayres, $38\frac{1}{2}$; Calcutta, $1.5\frac{31}{32}$; New York, $4.86\frac{7}{8}$. (*Chartered Accountants.*)

12. What is a "Dual Currency" system? What modifications in accounting does it involve?

13. How would you treat Foreign Branch Accounts in the following cases. (1) Where the rate of exchange is stable; (2) Where the rate of exchange is fluctuating? Explain on what basis you would incorporate the accounts of the Foreign Branch in the Head Office books, taking France as an example of a stable rate and Brazil as an example of a fluctuating one. (*Chartered Accountants.*)

14. Messrs. Pernet Ducher & Co., Ltd., London, have a branch office in a South American Republic, where the exchange fluctuations are considerable. The books of the Branch are kept in local currency only, and, at the close of each financial year, a Trial Balance, Profit and Loss Account and Balance Sheet are sent to the London office.

Briefly describe how you would amalgamate the Branch figures with those of the Head Office.

At what rates would you convert (1) the Profit and Loss Account balance; (2) the Floating Assets; (3) the Fixed Assets; and (4) Remittances from London. (*London Chamber Commerce.*)

15. Clarke, Ellis & Co. are a London firm, whose chief business is in England. They have, however, a considerable business with South American buyers, and invoice goods to them in local currency and accept payment by bills in the same currency. How would you record the South American transactions in the books of the firm? (*Royal Society Arts.*)

16. An English company owns a tea plantation in Ceylon All the tea produced is shipped to a London firm of tea brokers, who duly furnish account sales and remit proceeds to the London office of the company.

The accounts of the detailed expenditure in Ceylon are kept in Indian currency and are sent to the Head Office in London monthly. The Account Sales and the account of the remittances to Ceylon are kept in sterling.

What method would you adopt for dealing with the two currencies employed when writing up the Head Office books? (*London Chamber Commerce.*)

17. The Tinacotah Rubber Plantations, Ltd., own a rubber estate in the East. Practically all the expenditure is local, and is made in cash The rubber harvested is sent to Hamburg for sale by auction, the net proceeds being remitted to London. The local currency fluctuates considerably.

You are required to outline briefly the system of book-keeping you would advise the company to employ, and to explain how you would deal with the questions of currency and exchange. (*Royal Society Arts.*)

18. A London company, owning a mine in India, receives monthly cash statements, in Indian currency, from its local manager.

How would you pass these returns into the company's books and effect the necessary conversion into sterling?

Illustrate your answer by means of rulings of the book or books you would suggest, and enter therein six imaginary transactions. (*London Chamber Commerce.*)

19. When preparing the annual accounts of a London firm, having branches in New York and Brussels, state generally how you would deal in the London books with the balances appearing in the Branch Ledgers, and also how the question of the rate of exchange would affect the year's results. (*Chartered Accountants.*)

20. A merchant in New York remits 12,900 florins to Amsterdam by way of London and Paris, paying $\frac{1}{8}$ % brokerage at each of these places. Find in dollars the total cost of the remittance. Exchange. New York on London, \$4.86$\frac{1}{4}$ for £1; London on Paris, £1 for Fcs. 124; Paris on Amsterdam, 9 58 florins for Fcs. 100. (*Chartered Institute Secretaries.*)

21. Abel Chatenay, of London, purchased 1,000 yards of silk at Fcs. 12 per yard from M. de Somme, of Lyons, and accepted a bill at two months for the amount of the invoice. The sale was recorded in A. Chatenay's books at Fcs. 124 per £. Chatenay's bankers met the bill in due course, the rate of exchange being then Fcs 124.05 per £.

Show the entries in A. Chatenay's books. (*Royal Society Arts.*)

22. Give the unit currency employed by (*a*) France, (*b*) United States of America, (*c*) Italy, (*d*) Russia, and (*e*) Japan. (*Chartered Accountants.*)

23. A merchant in Hong-Kong has a correspondent in Calcutta, on whom he draws for Rs. 3,675, and he remits the draft to London, where it realises at the rate of 1s. 5$\frac{3}{4}$d. per rupee. With what amount will he be credited in London, and what will the bill have cost him in dollars at the rate of Rs. 207 for \$100? (*Chartered Accountants*)

24. Give the equivalents in sterling of \$14,246 64 at 4s. 2d. and Rs. 27,894.12.8 at 1s. 6d. (*Chartered Accountants.*)

25. Give the cost of bills on Hong-Kong \$10,260.50 at 1s. 1d. and Calcutta Rs. 74,316.8.8 at 1s 5$\frac{1}{2}$d. (*Chartered Accountants.*)

26. Having purchased from Paris to the amount of Fcs. 25,000, and, in order to remit, I buy a bill on Paris at Fcs. 123.85 to the £. What is the amount of my remittance? What is my profit or loss? (*Incorporated Accountants.*)

27. A firm in London owns a business in Russia, and receives from the local manager a monthly statement of the transactions in Russian currency. How would you give effect to these transactions in the London books? Give rulings and three imaginary entries. (The nominal value of a Russian rouble = 100 kopecks is 2s.) (*Central Association Accountants*)

28. A and B, carrying on business in London, had established a branch in New York on January 1, 1913, sending over Stock and Cash to the value of £1,000 as working capital. In the London books this appeared as "Capital, New York, £1,000." The equivalent in the New York books

was $4 875 Profits were made in New York as follows: 1913, $2,762.43; 1914, $3,419 40; 1915, $4,350.15. As on December 31, 1915, the Branch was sold, the purchasers paying $10,000 for the goodwill, and taking over assets and liabilities at book figures. They remitted the full amount by draft (the exchange being $4.76½), and this had come to hand before the London accounts were closed for 1915. By arrangement, no New York profits had previously been brought into the London books. A and B, sharing profits five-eighths and three-eighths, make the necessary Journal entry in the London books to explain and close the transaction, as far as possible, as on December 31, 1915. (*Chartered Accountants.*)

29. Black & Co. having to remit Rs. 25,000 to Bombay, ascertain that the Comptoir d'Escompte will sell bills at 1s. 5⅜d. and Chartered Bank of India at 1s 5¼d. Show the sterling cost by both ways and the saving by remitting through the Chartered Bank. (*Chartered Accountants.*)

30. The International Produce Company, Ltd., sold to Dumas Frères, of Paris, goods to the value of £1,000 on November 1, 19.., which were invoiced in francs at the rate of 123.85.

On February 1st the company received from Dumas Frères a draft, on the Crédit Lyonnais in payment of the above invoice, less 5 % discount.

This draft was paid in to the Company's Bankers, the Anglo-Foreign Banking Company, Ltd., which in due course, on February 5th, credited the Company's account with the proceeds at the current rate of exchange, viz 123.90.

Make the entries in the Produce Company's books recording the above transactions, and show the loss or gain in exchange.

In the case of a Company such as the above, whose dealings were principally with France and Belgium, what would you suggest as to the best method of keeping the accounts, the transactions with the above countries being in currency? (*Chartered Accountants.*)

31. Sebire Frères, Paris, remit to Brown & Co., London, a cheque for Fcs 4,910, in full settlement of an account of £40 Brown & Co.'s bankers credit them, at the exchange of Fcs. 124, with £39 11s. 11d

Set out the entry in Brown & Co.'s Cash Book; also their Ledger account with Sebire Frères. (*Chartered Accountants.*)

32. The return of the Imperial Bank of Russia for the week ending March 21st shows the following changes as compared with the previous account:—

	Total.	Increase.	Decrease
	Roubles.	Roubles	Roubles.
Notes in Reserve.. .. .	101,624,000	—	2,303,000
Cash (Gold and Silver) and Gold in Reserve	1,558,381,000	2,430,000	—
Gold in Reserve Abroad ..	225,028,000	—	5,927,000
Circulation Authorised Note Issue	1,725,000,000	Unchanged	
Treasury Deposits	479,992,000	—	13,416,000

Find in respect of each item to three decimal places the increase of decrease per cent. (*Chartered Institute Secretaries.*)

33. If a company for the purpose of trading with India remits part of its funds to India when the exchange is at par, say 1s. 6d. per rupee, and the exchange falls to 1s. 5d. per rupee, is it the duty of the auditor to see that the assets in rupees are valued at the lower rate of exchange? (*Chartered Accountants*)

34. In preparing the Balance Sheet of a Bank having foreign branches, at what rates should the currency figures of the Balance Sheet and Profit and Loss Account be converted into sterling in the case (*a*) of a Branch in France; (*b*) of a Branch in Brazil? How would you deal with any difference arising on conversion? (*Chartered Accountants.*)

35. You are auditing the accounts of a Liverpool merchant, with branch houses in New York, Valparaiso, and Lima, and owning freehold premises in each of those places, debited in the books of such branches respectively. The balance of assets over liabilities at each branch is translated at the rate of exchange ruling at the date on which the balance is taken, and treated as an asset in the Balance Sheet of the firm. Can you pass these entries? If not, state fully what adjustments would, in your opinion, be necessary. (*Chartered Accountants.*)

36. A limited company, owning a Branch in a country where the exchange is subject to constant fluctuation, has converted the Trial Balance of the local books into sterling at the rate ruling on December 31, 19..—the date of the Trial Balance—and incorporated the figures thus arrived at in the Head Office books. The Trial Balance consisted of the balance of the local Profit and Loss Account, Buildings, Plant, Stock, Cash, and Sundry Debtors and Creditors.

As auditor to the company, do you approve of this? (*Chartered Accountants.*)

37. A London firm of merchants, with a Branch in Calcutta, ask you to audit their books. On attending at the office of the firm, you find that a separate set of books is kept for the Calcutta Branch in which every transaction is converted from currency into sterling at a fixed rate of exchange, say Rs. 13⅓ to the £ Your clients ask you whether this procedure is necessary, and, if not, how the labour entailed can be economised. What advice should you offer? (*Chartered Accountants.*)

38. At what rates of exchange would you convert the following classes of balances, in the Trial Balance of the Brazilian Branch of a British limited company, for incorporation in the London books of the company at the end of a financial year? Give a reason for your answer in each case. (*a*) Fixed Assets; (*b*) Floating Assets and Current Liabilities; (*c*) Profit and Loss balance; (*d*) Remittances (*Chartered Accountants.*)

39. A limited company, whose Head Office is in London, owns a tobacco plantation in British North Borneo. The tobacco crop is sold annually in Amsterdam by public tender. The plantation expenditure is met by bills drawn on the Head Office and discounted in local currency at Singapore.

As auditor to the company, you are asked to advise as to the basis upon which the accounts between London and Borneo should be kept at the Head Office in order to obtain accurate results and to enable you to carry out an efficient audit.

Submit a brief report to the directors embodying your reply to the above request. (*Chartered Accountants.*)

40. You are auditor of a company trading in Buenos Ayres. You doubt whether loss on exchange is properly provided for. How will you find out? (*Chartered Accountants.*)

41. A. BROWN & CO., LONDON AND RIO DE JANEIRO.

RIO DE JANEIRO TRIAL BALANCE, DECEMBER 31ST.

	DR. Milreis	CR. Milreis.
Freehold Land and Buildings (at January 1st) ..	250,000	
Freehold Land and Buildings (additions during year)	11,000	
Stock of Goods on hand (December 31st) . .	32,032	
Sundry Debtors	160,640	
Sundry Creditors		96,656
Bills Receivable	48,496	
Investment: Milreis 50,000 State of Amazonas Internal 5 % Bonds, bought at 90 . .	45,000	
Cash at London & Brazilian Bank	49,632	
Profit and Loss Account (balance, December 31st) .		60,672
Head Office Account (balance, January 1st) . ..		599,472
Remittance Account (£10,000 remitted to London)	160,000	
	Ms. 756,800	Ms 756,800

From the above information prepare the Trial Balance for incorporation with that prepared from the London books.

The Freehold Land and Buildings are to be converted at the rate ruling when the assets were purchased (15¼d per milreis), and the additions at the average rate ruling for the year (15½d.). The rate ruling at the close of the year was 15d. The Investment was bought as a permanent investment, and is to be treated as having been bought at a time when the rate ruling was 16d. The equivalent of the Head Office Account balance (Ms. 599,472 000) as shown by the London books is £37,469 12s. 7d.

42. Prepare from the following figures a detailed statement, in a concise form, showing that the surplus assets abroad would be sufficient to provide for the excess liabilities (including Capital) in England :—

	England			Mexico	Burma		
	£	s	d	Dollars	Rs	a	p.
Cash ..	1,075	2	10	10,400.75	1,35,990	14	6
Creditors ..	120,080	10	10	35,888 54	7,58,900	12	0
Debtors ..	13,822	10	4	16,952.12	1,97,886	12	2
Bills Receivable ..	17,128	10	6		3,75,000	15	10
Bills Payable ..	60,220	18	6		4,350	14	2
Investments ..	14,954	6	8	2,000 00	30,600	0	0
Shipments ..	70,426	16	11	5,541.02	1,05,989	10	0
Stock ..	440	14	6	160,072.25	6,45,763	4	8
Reserves ..	100,000	0	0	2,000.00	1,50,000	0	0
Share Capital ..	150,000	0	0				
Profit ..	3,857	13	10				
Payments in Advance ..	444	4	4	7,420.90	85,275	2	0
Properties ..	220,000	0	0	12,000.00	1,65,000	0	0
Advances to Natives ..					3,45,000	0	0

The dollar to be converted at 2s. and the rupee at 1s. 4d. (16 annas = 1 rupee, 12 pies = 1 anna). (*Chartered Accountants.*)

43. The Chemical Supply Company, Ltd, London, has branches at Calcutta and Bombay The nominal Capital of the Company is £20,000, divided into 10,000 Ordinary and 10,000 Preference Shares of £1 each.

The accounts of the Indian branches are audited by a firm of chartered accountants, who supplied the following Balance Sheets as on June 30, 19.. :—

LIABILITIES.	Calcutta	Bombay.	ASSETS.	Calcutta	Bombay
	Rupees	Rupees		Rupees	Rupees
London Office ..	136,305	67,110	Stock ..	104,580	63,255
Creditors ..	700	1,780	Debtors ..	40,830	4,300
Bad Debts Reserve	2,550	1,400	Fittings and Furniture ..	6,350	950
Bombay Branch	1,950	—	Calcutta Branch	—	1,950
Profit for the year	12,280	8,275	Formation Expenses ..	—	1,250
			Cash in hand and at Bank ..	2,025	6,860
	153,785	78,565	Rs.	153,785	78,565

For the purposes of conversion, the rupee may be taken at 1s. 4d.

The Head Office Trial Balance on June 30, 19.., was as follows :—

Credit Balances: Sales, £7,775; Bad Debts, £97; Preference Share

Capital, £5,000; Sundry Creditors, £6,635; Commission Earned, £30; Ordinary Share Capital, £5,500, Bills Payable, £1,980.

Debit Balances. Purchases, £6,150, Freight Duty and Export Charges, £155; Wages and Salaries, £255; Trade Expenses, £60; Formation Expenses, £940; Postages, Telegrams, and Telephone, £56; Calcutta Branch, £9,387; Directors' Fees, £250; Cash in hand and at Bank, £650; Profit and Loss Account balance, June 30th, £2,850; Stock, June 30th, £40; Rent and Rates, £30; Stationery and Advertising, £75; Bank Interest and Charges, £22; Furniture and Fittings, £31, Bills Receivable, £45; Bombay Branch, £4,474; Commission Paid, £127; Sundry Debtors, £1,020.

On June 30th following the London Stock was £150 and the Stock of Stationery £45.

Cash in transit from Calcutta, £300.

Reserve £170 for Commission Earned, and £120 for Bad Debts.

The Calcutta manager is entitled to a commission on the surplus profits of the Company in each year, after paying the Preference Share dividends, of £10 in respect of each 1 % earned on the Ordinary Share Capital

Prepare Trading and Profit and Loss Accounts for the year ended June 30th, and Balance Sheet as on that date. (*Chartered Accountants.*)

44. From the following Trial Balances prepare the Balance Sheet of the South American Produce Company, Ltd., as at March 31st:—

SOUTH AMERICAN BOOKS.

	Milreis	Milreis.
Sundry Debtors	155,000	
Sundry Creditors		60,600
London Office Account (£9,812 10s. 5d.)		154,206
Cash at Bank	12,040	
Furniture (purchased April 1st, previous year)	3,216	
Stock	118,050	
Profit and Loss Account, Net Profit for the year		73,500
	Ms. 288,306	Ms. 288.306

LONDON BOOKS.

	£ s. d.	£ s. d.
Share Capital, 5,000 shares at £5 each (£3 paid up)		15,000 0 0
South American Account (remittances at actual rates)	9,812 10 5	
Cash at Bank	8,475 1 7	
Profit and Loss Account, balance at April 1st		3,287 12 0
	£18,287 12 0	£18,287 12 0

Rate at April 1st, 1s. 4d. per milreis. Average rate, 1s. 3½d per milreis. Rate at March 31st, following, 1s. 3d. per milreis. (*Central Association Accountants.*)

45. From the following Trial Balances prepare the Balance Sheet of the San Paulo Trading Syndicate, Ltd., as at June 30th.

SANTOS TRIAL BALANCE, JUNE 30TH.

	DR. Milreis.	CR Milreis
Cash at Bank of Brazil, Santos	7,500	
Stock of Goods on hand	75,500	
Sundry Debtors	68,500	
Bills Payable		17,000
Furniture and Fittings, balance at December 31st, last	2,000	
Furniture and Fittings, additions from January 1st to June 30th	1,500	
Profit and Loss Account balance, being Net Profit for the half-year ended June 30th		14,000
London Office Account (£7,767 3s. 9d.)		124,000
	Ms. 155,000	Ms. 155,000

LONDON TRIAL BALANCE, JUNE 30TH.

	Dr. £	s.	d.	Cr. £	s.	d.
Share Capital issued: 10,000 £1 Shares, 15s. per share paid				7,500	0	0
Cash at Bank	85	0	11			
Santos Office Account, Ms. 124,000 at actual remittance rates	7,767	3	9			
Profit and Loss Account, balance brought forward from last year				352	4	8
	£7,852	4	8	£7,852	4	8

Current rate of exchange, December 31st, 15d per milreis. Current rate of exchange, June 30th, 16½d. per milreis. Average rate for first half of year, 16d. per milreis.

Furniture and Fixtures on hand at December 31st were bought at 15d. per milreis; the additions during the first half of year were bought at 16d. per milreis.

46. From the subjoined Trial Balances, extracted from books kept respectively at the London and Berne offices of Reville & Co., Ltd., prepare the combined Balance Sheet of the undertaking as on December 31st. A fixed rate of exchange of Fcs. 25.20 to the £ is employed in the business.

REVILLE & CO., LIMITED.

LONDON (HEAD OFFICE) TRIAL BALANCE, DECEMBER 31ST

	Dr. £	s.	d.	Cr. £	s.	d.
Share Capital				10,000	0	0
Stock of Goods on hand (December 31st)	3,295	12	6			
Sundry Debtors	1,926	14	3			
Sundry Creditors				4,991	6	2
Freehold Premises	8,050	12	6			
Furniture, Fittings, and Fixtures	132	9	5			
Bills Receivable	450	0	0			
Cash at Bank	456	15	11			
Cash in hand	10	9	6			
Berne Branch Account (Fcs 42,800 at 25.20)	1,698	8	3			
Profit and Loss Account (London), Net Profit for year				1,029	16	2
	£16,021	2	4	£16,021	2	4

BERNE BRANCH TRIAL BALANCE, DECEMBER 31ST.

	Dr. Francs.	Cr. Francs.
Sundry Debtors	40,800.05	
Sundry Creditors		28,000.00
Stock of Goods on hand (December 31st)	12,500 00	
Furniture, Fittings and Fixtures	2,000 00	
Bills Receivable	4,500.00	
Cash at Bank	13,097.50	
Insurance paid in advance (proportion unexpired)	98.00	
Cash in hand	1,926.00	
London Office Account (remittances received)		42,800.00
Profit and Loss Account balance, being Net Profit for the year		4,121.55
	Fcs 74,921.55	Fcs. 74,921.55

47 Rates of exchange quoted in London on September 25, 19 , were. New York, 4.85½; Paris, 123.90, Berlin, 20.50. Explain the meaning of these

rates and calculate what would be the value of the franc and the mark, respectively, in American money on that day, to three places of decimals. (*Chartered Accountants.*)

48. W. P. & Co., Ltd , whose registered office is in London, have a Branch of their business in Paris. Both the London and Paris houses prepare their own Balance Sheets, and the following figures represent the Balance Sheets of the two houses on December 31st. You are requested to combine the two accounts.

A fixed rate of exchange of Fcs. 124 = £1 is used in the business.

LONDON BALANCE SHEET, DECEMBER 31, 19...

	£		£
Share Capital	25,000	Premises	10,000
Creditors	500	Debtors	8,495
Bank	5,000	Furniture	125
Paris Branch Account	12,500	Bills	1,430
Profit and Loss Account	2,495	Cash in hand	327
		Stock on hand	25,118
	£45,495		£45,495

PARIS BALANCE SHEET.

	Francs.		Francs.
Creditors	325,500.00	Debtors	8,500.50
Profit and Loss Account	3,876.00	Furniture, etc.	1,500.00
		Cash in hand	125.25
		London Office Account	314,000.00
		Stock	5,250.25
	Fcs. 329,376.00		Fcs. 329,376.00

(*Incorporated Accountants.*)

49. When auditing the books of a London firm with a Branch in India you find, amongst the firm's papers, the Trial Balance set out hereunder :—

W. A. RICHARDSON & CO. LIMITED.

CALCUTTA TRIAL BALANCE, DECEMBER 31ST.

	Rupees.	Rupees.
Cash at Bank of India	16,120	
Stock on hand	29,030	
Sundry Debtors	164,312	
Bills Receivable	29,814	
Freehold Land and Buildings	16,000	
Plant and Machinery	44,092	
Sundry Creditors		187,920
Head Office Account		61,410
Profit and Loss Account (balance net profit for year)		50,038
	Rs. 299,368	Rs. 299,368

How should you proceed to satisfy yourself that these figures had been correctly incorporated in the Head Office books ? (*Chartered Accountants.*)

50. A firm of London merchants received a Trial Balance from their Branch abroad—where the exchange is liable to considerable fluctuations—and incorporated the items in the London books at the rate of exchange ruling as on the date of the Trial Balance (December 31st). The Trial Balance contained the following items : Premises, Plant, Sundry Creditors, Sundry Debtors, Stock, Cash in hand, London Office Account, and Profit and Loss Account.

Do you approve of the above proceeding ? If not, how would you deal with the Branch Trial Balance in the London books ? (*Royal Society Arts*)

51. A limited company, the registered office of which is in London, has a Share Capital of £100,000, all issued and fully paid. It has a house in

Paris, and has in Hamburg a house which is a branch of the Paris house. The following are the Balance Sheet figures for the respective places on June 30th last :—

	London. £	Paris Francs	Hamburg. Mark
Share Capital, 10,000 Shares of £10 each	100,000	—	—
Creditors (including Bills Payable, maturing July 31st, £31,567 9s. 6d)	37,893	62,075	50,620
Reserve for Bad Debts and Discounts (London, Paris, and Hamburg)	21,250	—	—
Reserve Fund	25,000	—	—
London, Paris, and Hamburg Banking Company (advances on Bills *per contra*)	25,697	—	—
Profit and Loss forward from last year..	1,260	—	—
Profit and Loss half-year June 30 ..	3,509	106,025	81,560
London House Balance	—	3,125,000	—
Paris House Balance	—	—	1,200,000
	£214,609	F 3,293,100	M.1,332,180
Cash	69	575	860
Stock	728	506,300	470,660
Debtors	296	1,213,150	808,120
Furniture, Fittings, etc.	526	20,300	25,020
London, Paris, and Hamburg Banking Company—			
Current Account	2,370	52,775	27,520
Deposit Account	30,000	—	—
Bills Receivable in hand	620	—	—
Bills Receivable deposited with London, Paris, and Hamburg Banking Company against advances (*per contra*) . ..	30,000	—	—
Investments	25,000	—	—
Paris House Balance	125,000	—	—
Hamburg House Balance	—	1,500,000	—
	£214,609	F.3,293,100	M.1,332,180

Taking the Paris figures at Fcs. 124.10 to the £, and the Hamburg figures at Mks. 20.40 to the £, draw up a Balance Sheet for submission to a meeting of the shareholders. (*Chartered Accountants*)

52. Black & White, of London, general merchants, have a Branch in Paris which is carried on quite independently of the London office.
On December 31st the Paris Branch Trial Balance was as follows :—

	Francs.	Francs
Head Office		130,000
Remittances to Head Office	80,000	
Furniture, Fixtures, and Fittings	10,000	
Sundry Debtors	30,000	
Sundry Creditors		10,000
Stock, January 1st	25,000	
Purchases	90,000	
Sales		175,000
Salaries and Wages	10,000	
Duty on Purchases	15,000	
Rent, Rates, and Taxes	7,500	
Trade Expenses	20,000	
Discounts	4,500	
Cash in hand	3,000	
Cash at Bank	20,000	
	Fcs. 315,000	Fcs. 315,000

Stock at January 1st, Fcs. 27,000.
Write off 10% depreciation from Furniture, Fixtures, and Fittings
For convenience, conversion was made at the rate of Fcs. 124=£1.
The Trial Balance of the Head Office on the same date was as follows:—

	£	£
Paris Branch	5,150	
Remittances from Paris		3,190
Furniture, Fixtures, and Fittings (Head Office)	1,500	
Sundry Debtors and Creditors	8,000	7,000
Trading Account, balance		2,310
Stock, December 31st	5,550	
Cash in hand	300	
Cash at Bank	2,000	
Black's Capital		8,000
White's Capital		2,000
	£22,500	£22,500

Make out the accounts of the Paris Branch and incorporate them in the Head Office books. Divide the net profit three-fourths to Black and one-fourth to White. (*Chartered Accountants.*)

53. Explain the term "Foreign Exchange," and interpret the meaning of the following quotations: Paris, cheques, 123.75; Amsterdam, sight, 10.80; New York, cable transfers, 4 84 (*Chartered Accountants.*)

54. A company, of which you are auditor, has a Branch in New York. All the accounts relating to the Branch are kept there, and are audited by New York accountants, who transmit yearly accounts to the Head Office in England, where they are incorporated with the English accounts.

The American Branch is merely a selling branch, and the assets consist of Land and Buildings, Fixtures and Fittings, Stock-in-Trade (consisting of goods sent from England, which are invoiced at a fixed rate), and Sundry Debtors.

How should the American accounts be incorporated in the English books? (*Chartered Accountants.*)

55. The S A. Company, Ltd., an English company, carries out operations in South America, where collections are made and remitted at the end of each month by demand draft, payable in London. In the London books dollars are always converted into sterling at the rate of $5 to the £ In the six months ended December 31st they received the following drafts: July 22nd, $3,263 83, realising £670 3s. 9d.; August 16th, $2,912.71, realising £599 6s. 6d.; September 18th, $1,478.02, realising £302 17s. 6d.; October 24th, $4,105.17, realising £842 19s ; November 14th, $2,433.65, realising £496 13s. 3d.; December 20th, $2,889 29, realising £588 9s.

Set out the entries which would appear in the Company's Cash Book in London, and say how you would deal with the "difference in exchange" when preparing the accounts for the half-year. (*Chartered Accountants.*)

56. Convert the following sums into the currency of the respective countries, showing your workings· Italy, £9,782 4s. 10d. at 92.85; Argentine, £490 8s. 2d. at 50⅜ India, £3,500 at 1s. 5⅞d.; Brazil, £16,814 10s. 5d. at 12½. (*Chartered Accountants.*)

57. Child Brothers, of London, have a Paris house. All transactions between the houses are recorded on a basis of a fixed exchange of Fcs. 124 to the £.

All profits and losses on exchange are shown in the London books.

From the following particulars make out the Paris Office and Exchange Profit and Loss Accounts, bringing down the balances in them at January 31st: January 1st, Balance due from Paris to London, Fcs. 50,000 = £2,000. January 10th, London remitted Fcs. 25,000 to Paris at exchange 124.10. January 15th, London sold to Paris goods invoiced at £124 January 16th, London remitted Fcs. 10,000 to Paris at exchange 124 15. January 26th, London received from Paris a cheque for £1,000 bought by Paris at exchange 123.95 = Fcs 123,950 00

58. Ray & Co., London, have a Paris branch to which they supply goods for sale The book-keeping of the business is worked on a fixed exchange of Fcs 124 to the £, all profits and losses on exchange being recorded in the London books.

On February 14th the London office sent to the Paris Branch goods invoiced at £1,000. The Paris Branch on February 16th remitted to London a cheque for £1,000 drawn by the Société Générale, Paris, on the Société Générale, London, for which Paris had paid, at the rate of the day, Fcs. 124,953.00.

(*a*) Show the entries in the London books for these transactions.

(*b*) Show the entries that would be made in the London books if a fixed exchange of Fcs. 124 21 to the £ were used in the business instead of an exchange of Fcs. 124 to the £.

59. Braunschewig & Co., Ltd., have a Head Office in London and a Branch at Berlin. A fixed exchange of Mks. 20 to the £ is used in the business. From the following Trial Balances prepare the combined Balance Sheet of the company at December 31st. The balance on Exchange Profit Account is to be carried forward on that account as a reserve against exchange fluctuations.

BERLIN TRIAL BALANCE, DECEMBER 31ST.

	DR.	CR.
	Marks.	Marks.
Stock of Goods on hand	46,060	
Cash in hand and at Bank	13,075	
Sundry Creditors		24,100
Sundry Debtors	9,200	
London Office (£1,779 5s. at 20)		35,585
Furniture, Fixtures, and Fittings	3,500	
Net Profit for Year ended December 31st		12,150
	Mks. 71,835	Mks. 71,835

LONDON TRIAL BALANCE, DECEMBER 31ST.

	DR. £ s. d.	CR. £ s. d.
Cash at Bank and in hand	228 14 0	
Stock	2,029 16 8	
Sundry Debtors	4,124 1 2	
Sundry Creditors		489 16 8
Share Capital Issued (4,000 £1 Shares fully paid, 2,000 £1 shares 10s. paid)		5,000 0 0
Debentures		3,000 0 0
Berlin Office (Mks. 35,585 at 20)	1,779 5 0	
Leasehold Premises	1,000 0 0	
Loan from Bank*		1,000 0 0
Profit and Loss Account, Balance at January 1st	519 16 8	
Profit and Loss Account, Net Profit for 1913		111 12 9
Exchange Profit		80 4 1
	£9,681 13 6	£9,681 13 6

60. The London and Berlin Corporation has a Head Office in London and a Branch at Berlin. London remits money to Berlin periodically through the Deutsche Bank at the rate of the day. Exchange transactions between the houses are, for book-keeping purposes, put through at a fixed exchange of Mks. 20 = £1.

At January 1, Berlin stood on the London books as a debtor for Mks. 100,000 = £5,000, and London was shown as a creditor in Berlin for a like amount. Exchange Profit and Loss Account showed no balance.

London made the following remittances to Berlin during January: January 5th, Mks. 30,000 at rate of the day (Mks. 20.37); January 16th,

* Secured on uncalled capital and leasehold premises

Mks. 10,000 at rate of the day (Mks. 20.36); January 25th, Mks. 10,000 at rate of the day (Mks. 20.35).

Show the Berlin Office and Exchange Profit or Loss Accounts on the London books at January 26th.

61. A London firm with a Branch at New York uses a fixed exchange of 49½d. per dollar in its book-keeping. On January 1st the New York house draws a sight bill on the London house for $5,000 for payment at the cheque rate ruling on its presentation. The bill was paid on January 8th at the rate of the day (49⅜d.). On January 8th the London office received by cable transfer through the American Bank £1,027 6s. 11d., being the cable equivalent of $5,000 remitted by its New York office to cover payment of the bill. All exchange profits and losses are shown on the London books. Show these transactions in the London books.

62. Messrs Wray & Co. have an office in Paris and another in London. An exchange rate of Fcs. 124 to the £ is adopted. From the following particulars construct the London Office Account in the books of the Paris office and the Paris Office Account in the books of the London firm, balancing them at March 31: January 1st, Balance due to London by Paris, Fcs. 200,000; January 10th, Goods sold by London to Paris, Fcs. 27,500; January 20th, Goods sold by London to Paris, Fcs. 47,500; February 10th, Goods returned by Paris to London, Fcs. 2,500; March 5th, Cash remitted from London to Paris, Fcs. 40,000 (*Note.*—Actual cost of remittance for Fcs. 40,000 was, at 124.10 the rate of the day, £322 6s. 5d.); March 20th, Goods sold by London to Paris, Fcs. 17.625; March 25th, Goods sold by London to Paris, Fcs. 500.

63. Veale Brothers have an office in London and a Branch at Dresden. From the following particulars show the account of the Dresden office in the London books. A fixed rate of exchange of Mks. 20 to the £ is used for book-keeping purposes. Balance the account at March 31st.

January 1st, Balance due from Dresden office to London, Mks. 10,000, February 8th, Goods sold by London to Dresden, Mks. 5,050; March 3rd, Goods sold by Dresden to London, Mks. 1,225; March 4th, Cash paid by Dresden to Strosser & Co. on account of London, Mks. 345; March 18th, Cash remitted by London to Dresden, at actual rate of the day (Mks. 20 41), Mks. 1,000, March 25th, Goods sold by London to Dresden, £1,500; March 25th, Cash remitted by Dresden to London, £73 9s. at 20.42½, Mks. 1,500.

All exchange profits and losses are taken on to London's books.

64. Bray & Co., of London, have a Branch at Rio de Janeiro. The following is the Rio Trial Balance at September 30th. Convert it into sterling for the purpose of incorporation with the London office books.

	Dr. Milreis.	Cr. Milreis.
Sundry Debtors	36,000	
Sundry Creditors		32,000
Stock	24,000	
Land and Buildings	20,000	
Brazilian Government Bonds, deposited with Government as security for contracts	5,000	
Bills Receivable	26,000	
Furniture and Fixtures	20,000	
Profit and Loss Account, Net Profits for year ended September 30th		18,000
London Office Account (at 15d.), £5,062 10s.		81,000
	Ms. 131,000	Ms. 131,000

NOTES—The Land and Buildings and Furniture and Fixtures were bought when the milreis was worth 15d. The Government bonds are held as a permanent investment, and were bought when the rate was 16d. The rate at September 30th may be taken to be 13d., and the average rate for the year 14d. per milreis.

65. From the following Trial Balances prepare the Balance Sheet of the Anglo-Swiss Machinery Supply Company, which carries on business in London and at its agency in Paris. A fixed rate of exchange of Fcs. 25 to the £ is used in the book-keeping, and the profit on exchange shown is to be carried forward as a reserve against exchange fluctuations.

SWISS AGENCY TRIAL BALANCE, DECEMBER 31st.

	Dr. Francs	Cr. Francs
Cash at Bank	4,000	
Sundry Debtors	26,050	
Sundry Creditors		8,550
Stock on hand	20,750	
Furniture and Fixtures	3,000	
London Office		35,000
Profit and Loss Account, Net Profit for year		10,250
	Fcs. 53,800	Fcs. 53,800

LONDON OFFICE TRIAL BALANCE, DECEMBER 31st.

	Dr. £	s.	d.	Cr. £	s.	d.
Share Capital, 8,000 £1 Shares				8,000	0	0
Cash at Bank	1,121	4	9			
Sundry Debtors	3,246	12	2			
Sundry Creditors				1,772	14	9
Profit and Loss Account—						
Balance from last year				151	2	2
London Net Profits for year				1,016	2	2
Swiss Agency Account, Fcs. 35,000 at 25.00	1,400	0	0			
Exchange Account				65	2	2
Stock of Goods on hand	3,101	14	1			
Furniture and Fixtures	422	9	8			
Goodwill	3,000	0	0			
Bills Payable				1,286	19	5
	£12,292	0	8	£12,292	0	8

66. The Trial Balance of the London office books of the A Rubber Company is as follows on December 31st:—

	Dr. £	s.	d.	Cr. £	s.	d.
Estate Purchase	3,000	0	0			
Estate Development	8,000	0	0			
Estate Produce Stock, January 1st	600	0	0			
Cash at Bank, London	800	0	0			
Estate Manager, January 1st	500	0	8			
Remittance to Estate Manager	1,000	0	0			
London Office Expenses	400	0	0			
Share Capital				12,000	0	0
Creditors				1,900	0	0
Profit and Loss Balance				400	0	8
	£14,300	0	8	£14,300	0	8

After taking out the above balances, the accounts to December 31st are received from the estate manager as follows (the dollar to be taken at 2s. 4d.) :—

	Dr. Dollars.	Cr. Dollars
Balance, January 1st	4,286	
Remittance from London	8,600	
Rebates	131	
Sale of Produce	2,000	
Profit on Rice	249	
Expenditure on Development		9,000
Expenditure on Purchase of New Land		2,800
Expenditure on Upkeep of Estate		1,646
Balance carried forward		1,820
	$15,266	$15,266

The produce unsold at December 31st was valued by the manager at $5,500.

You are required to construct the Revenue Account and Balance Sheet for presentation to the shareholders. (*Chartered Accountants.*)

67. The *Empresa Helvetica* Company is an English company owning a single stern-wheeled steamer running on the River Magdalena in Colombia. From the following particulars make out the Company's Balance Sheet at December 31st, exchange rates being the same as in the preceding question. The Company's office in Colombia is at Barranquilla.

LONDON TRIAL BALANCE, DECEMBER 31st.

	Dr. £	Cr. £
Share Capital		5,000
Steamship *Helvetica*, cost	4,500	
Cash at Bank	50	
Barranquilla Office (Pesos 225,000 at exchange 10,000)	450	
	£5,000	£5,000

BARRANQUILLA TRIAL BALANCE, DECEMBER 31st.

	Dr. Pesos	Cr. Pesos
London Office		225,000
Net Profits for year		126,750
Cash at Bank	100,000	
Stores	51,750	
Sundry Debtors	200,000	
Pesos	351,750	351,750

68. Jacob Heal, of London, has an importing business at Cartagena, in the Republic of Colombia, and an office in London. He makes his final accounts out in sterling The following are his London and Cartagena Trial Balances :—

LONDON TRIAL BALANCE, DECEMBER 31st.

	Dr.	Cr.
	£	£
Cash	500	
Cartagena Office (Pesos 1,800,000 at exchange 10,000%)	3,600	
Stock	500	
Capital		1,000
Reserve for Exchange Fluctuations		1,000
Creditors		2,000
	£4,600	£4,600

CARTAGENA TRIAL BALANCE, DECEMBER 31st.

	Dr.	Cr.
	Pesos	Pesos.
Cash	19,500	
Stock	650,000	
Sundry Debtors	975,000	
Office Premises	240,000	
Net Profit for 1909		84,500
London Office (Pesos 1,800,000 at exchange 10,000 = £3,600)		1,800,000
Pesos	1,884,500	1,884,500

At the period of this question the Colombian dollar was a depreciated paper unit fluctuating considerably, and worth in sterling money about a farthing Exchange rates were quoted in the number of Colombian pesos obtainable for £20 sterling (or $100 U S gold); thus exchange 13,000 means that 13,000 Colombian pesos were the equivalent of £20 sterling The rates of exchange to be used in working the question are to be taken as being · (*a*) Rate at which remittances for £3,000 were originally made, 10,000 (pesos per £20 sterling); (*b*) rate at December 31st, 13,000; (*c*) rate at time office premises acquired, 12,000; (*d*) average rate for 1909, 10,562½.

Write off loss on exchange against the Reserve for Exchange Fluctuations Account.

69. James Rivalera started business as an importer of merchandise having an office at San Francisco, U.S A, and a Branch at Corinto, in the Republic of Nicaragua. He prepares his final accounts and Balance Sheet in United States gold dollars At the period of this question the Nicaraguan peso was a depreciated paper currency of fluctuating value in United States gold dollars. From the following particulars prepare his Balance Sheet at December 31st in United States gold dollars —

SAN FRANCISCO TRIAL BALANCE, DECEMBER 31st.

	Dr	Cr.
	Dollars	Dollars.
Cash at Bank	1,000	
Office Furniture	500	
Corinto Office (Nicaraguan paper pesos 70,000, at exchange 1,400 %)	5,000	
Sundry Creditors		3,000
Capital		3,500
United States gold	$6,500	$6,500

CORINTO TRIAL BALANCE, DECEMBER 31ST.

	DR. Paper Pesos.	CR. Paper Pesos.
Cash at Bank	10,000	
Sundry Debtors	30,000	
San Francisco Office ($5,000 at exchange 1,400 %)		70,000
Stock of Goods	33,000	
Furniture and Fittings	2,000	
Net Trading Profit to December 31st		5,000
Nicaraguan pesos	75,000	75,000

NOTES.—The $5,000 standing to the debit of the Corinto Branch was disbursed or remitted out at exchange 1,400 (i.e. 1,400 Nicaraguan pesos = 100 U.S. gold dollars). The Furniture was bought at a time when 1,200 Nicaraguan pesos were the equivalent of 100 U.S. gold dollars, and the ruling rate at December 31st was likewise 1,200 pesos = 100 U.S. dollars. The average rate of exchange for the trading period may be taken as being 1,250 (i.e. 1,250 Nicaraguan pesos = 100 U.S. dollars). Transfer profit on exchange to a reserve account.

CHAPTER XVIII

Executors and Administrators

Executorship accounts are scheduled as a subject in the examination syllabuses of all societies of professional accountants, and also by some of the commercial examining bodies. Students frequently ask whether it is necessary for them to acquire a knowledge of executorship law. The answer is that familiarity with the law governing the rights and duties of executors is essential for accurate executorship accounting. Many excellent text-books are available for the student The law governing the administration of the estate of a deceased person was substantially altered by the *Law of Property Act*, 1922, *Settled Land Act*, 1925, *Trustee Act*, 1925; *Law of Property Act*, 1925, *Administration of Estates Act*, 1925; *Supreme Court of Judicature (Consolidation) Act*, 1925; and the *Law of Property Amendment Act*, 1926. These Acts affect all estates where the death occurred after 31st December, 1925, and it is not proposed in this chapter to deal with what is now the "old" law, since examination candidates are expected to be familiar with the "new" law only, nor is it proposed to do more than outline the general principles of the law relating to executors. Exhaustive treatment is impossible in a general text-book.

The Will.—A will is the written declaration of a person's wishes as to the destination of his property after his death. All persons over twenty-one years of age are competent to make a will, provided they are sane at the time of making it. A will must be in writing, and must be signed by the person making it, or by some other person in his presence and by his direction. It must be witnessed by at least two persons, signing their names, addresses, and descriptions, at the same time, and in the presence of each other and of the testator (i.e. the person making the will) (*Wills Act*, 1837). Failure in these respects invalidates a will.

The usual form of attestation clause should be used, otherwise it will be necessary for one of the attesting witnesses to file an "Affidavit of due Execution." The usual form of attestation clause runs as follows:—

> "Signed by the said A B as and for his last will and testament in the presence of us both present at the same time, who in the presence of the testator and at his request and in the presence of each other have hereunto set our hands as witnesses."

A shorter form which contains everything essential is:—

> "Signed by the said A B in our joint presence and by us in his."

The witnesses should be independent persons who take no benefit under the will. Bequests or devises to an attesting witness, or to his or her wife or husband, are void, though the will is otherwise valid. A *bequest* is a gift of *personal* estate by will, a *devise* is a gift of *real* estate by will.

A will requires no stamp. It may be prepared by anyone, and no particular form is necessary, but it should be drawn in explicit language admitting of one interpretation only, and for this reason a will should be drawn up by a solicitor. In legal circles, a will is regarded as one of the most difficult documents which a solicitor can be asked to draw.

Each sheet of the will should be signed by the testator and the witnesses, but this is not essential. All erasures, interlineations and alterations should be initialled by the testator and the witnesses. Alterations not so initialled or referred to in a memorandum signed by the testator and witnesses may be proved by the affidavit of an attesting witness to have been made before execution of the will If not so proved, probate is granted of the will without the alterations.

Soldiers on active service and sailors at sea, even though infants, can make a valid will, orally or by an unattested writing. Such wills are called *Nuncupative Wills*

Wills obtained by undue influence, or under duress, or made while the maker is insane, or helplessly drunk, or in such a state that he does not know the contents, are void

In *Sugden* v. *Lord St. Leonards* (1876), 1 P.D. 154, a lost will was proved by the recollection of a single witness as to its contents.

Codicil.—A codicil is a supplement to a will made subsequently to the will. It forms part of the will, and is made for the purpose of altering, subtracting from, or adding to the former directions of the testator It must be executed with the same formalities as a will. Any number of codicils may be added to a will, and will and codicils are construed together as one document.

Revocation of Wills.—A will is revoked by:—

(1) Marriage of the testator The only exceptions to this rule are that (*a*) a will made after 1925, if the will is expressed to be made in contemplation of marriage with a particular person, is not revoked by the solemnisation of that marriage (S. 177, *Law of Property Act*, 1925); and (*b*) a will made in exercise of a power of appointment is not revoked when the property appointed would not, in default of appointment, pass under the terms of the settlement creating the power to the testator's heir, executor, administrator or next of kin.

(2) By another will or codicil. There must be in the later will either express or implied revocation, or the two must be incapable of standing together.

(3) By burning, tearing or destroying the will with the intention of revoking it. The destruction may be by the testator, or by someone in his presence and by his direction. The destruction must be actual and complete; a destruction com-

menced but interrupted and abandoned is not sufficient Cutting away or erasing the testator's name, or those of the attesting witnesses, is an effective revocation. There must always be *animus revocandi*, the intention to revoke; both intention and destruction are required.

Republication of Wills.—A revoked will may be revived by being re-executed, or by a codicil duly executed, showing an intention to revive it. This has the effect of republishing the will, so as to bring the will down to the date of the codicil The will revived must be sufficiently identified by the codicil; a completely destroyed will cannot be revived.

Executors and Administrators.

An executor is a person appointed by a testator, and named in the will, to carry out, or execute, the provisions of the will An administrator is a person appointed by the Court to realise and distribute the estate of an intestate, i.e. a person who dies and leaves no will, or the estate of a testator who has appointed no executor or whose appointed executor is unable or unwilling to act, or where the chain of representation is broken. An executor can only be appointed by will or a codicil, but the testator may delegate the power to appoint his executor to some other person. An executor may be appointed for *general* or for *special* purposes e g. "to realise my estate in South Africa." Executors and administrators are the representatives of the deceased person, and stand, as far as possible, in his shoes. They are referred to as *the legal personal representatives* of the deceased. Executors derive their authority from the will; administrators from the Court which appointed them. The duties of these personal representatives are now practically identical. The chief differences between them are:—

(*a*) The property vests in an executor from the date of the testator's death, but not in an administrator until Letters of Administration have been granted to him.

(*b*) An executor gives no security, but an administrator must enter into a bond with two sureties for twice the value of the estate.

(*c*) The office of one of several executors devolves upon the surviving executors, but that of a sole or last surviving executor devolves upon his own executor in the event of his dying before the executorship is completed, but this is not so in the case of an administrator. On the death of an administrator prior to his completion of the administration a fresh grant, *de bonis non* (see p. 976), must be obtained.

Who May Act as Executor.—Any sane person can act as executor An infant, a married woman, an alien, a partnership or firm (probate is granted to the members individually), or the Public Trustee (*Public Trustee Act*, 1906) may act as executors. If an infant is appointed, he cannot act until he comes of age, and mean-

while, if he is the sole executor, administration *durante minore ætate* (see p 976) is granted to his guardian Probate is not to be granted to more than four persons in respect of the same property If any beneficiary is an infant, or a life interest arises under his will or intestacy, the administration must be granted either to a "trust corporation," with or without an individual, or to not less than two individuals, and, in these cases, if there is only one personal representative (not being a trust corporation) the Court may on application appoint an additional representative (S. 12, *Administration of Estates Act*) This applies to all grants made after 1925, whatever the date of the death of the testator. Where a "trust corporation" (that is, the Public Trustee, or a corporation appointed by the Court in any particular case, or entitled by rules made under the Public Trustee Act to act as custodian trustee) is executor or administrator, the grant must no longer be to a syndic or nominee, but to the corporation itself; and such a corporation may swear affidavits, give security, and do other acts by any authorised person This provision seems designed to help the Public Trustee and may increase the use of Banks and trust companies as trustees. Anyone who meddles with the affairs or estate of a deceased person may find himself held to be an executor *de son tort* (i.e. of his own wrong), with all the liabilities of an executor but with none of his privileges. Payments made to an executor *de son tort* in good faith by third parties are binding on the rightful representative. An executor *according to the tenor* is one whom, on a reasonable construction of the will, it appears to have been the intention of the testator to appoint, though it is not so stated in the will. A direction to that person to pay the testator's debts and discharge the legacies would show such an intention.

Renunciation.—If the person named as executor does not wish to act, he may renounce the office, provided he has performed no executorial act. The renunciation should be in writing and should be filed at the Registry. Failure to appear when cited to take probate constitutes renunciation. If a sole executor renounces, or all renounce, the beneficiaries (or the one with the best claim) must then obtain a grant of Letters of Administration *cum testamento annexo.* Once an executor has performed any executorial act, he cannot as a rule renounce his duties But under the *Public Trustee Act,* 1906, S. 6 [2], he may, with the sanction of the Court, transfer his duties to the Public Trustee. The Public Trustee has power to act either solely or jointly with the continuing executors or administrators (if any).

Executor Cannot Delegate his Office.—Except as stated hereunder, an executor cannot assign his office, or delegate all his rights and duties to another The rule *delegatus non potest delegare* does not indeed apply in its integrity. He may have recourse to, and rely on, professional assistance, and he may appoint agents to do particular things, e.g. to collect assets; but he cannot appoint an agent to discharge his duties as a whole, except that, by S. 25, *Trustee Act,* 1925, a trustee, intending to be out of the country for more than a month, may delegate to any person, except a person

being the only other co-trustee, but including a Trust corporation, the execution of any of the trusts, powers or discretions vested in him; but the trustee will be liable for the acts or defaults of his attorney *as if they were his own*. The power must be witnessed and filed at the High Court. (See also *Law of Property (Amendment) Act*, 1926, Sch.) The power frequently given by wills for an executor to employ agents to transact business is now statutory (S. 23), and the personal representative is not liable for such an agent's default if the employment is made in good faith. If there is more than one executor, the office survives to the remaining executor Probate granted in England confers no power to deal with estate of the testator in Scotland or Ireland, until probate has been confirmed under seal in the Courts of those countries, and *vice versa*

Powers of Executor.—An executor practically possesses the same powers over an estate as did the testator, subject, of course, to whatever limitations may be imposed upon him by the will. *Qua* executor, he has no beneficial interest in the estate, but he has full legal control over it Usually he is the recipient of a legacy to compensate him for the work that he will be called upon to perform, and also perhaps by way of inducement to him to act as executor. He enjoys two privileges.—

(1) *Preference.*—He may prefer one creditor to another creditor of equal degree. But where judgment is given, or an order made for administration, the executor's right of preference ceases.

(2) *Retainer*—The executor may retain against creditors of equal degree any debt due to himself from the testator, and that even though the debt is statute barred. This right is not destroyed if an order for administration of the estate is made, but the executor cannot retain out of assets got in by a receiver appointed by the Court. The right of retainer and the right to prefer creditors may, in the case of deaths occurring after 1925, be exercised in respect of all assets. But the right of retainer is to apply only to debts owing to a personal representative in his own right, whether solely or jointly with another This appears to refer to decisions to the effect that an executor can retain a debt owed to a trustee for him It is possible that a right of retainer is now given to an executor *de son tort*.

An executor can sell, charge, or assign the assets, compromise claims, and sue or be sued. Even though he be a professional man, he is not entitled to any remuneration for his work unless the will so directs He must not make any profit out of his executorship, but he has a right of indemnity against the estate for liabilities and expenses properly incurred by him. He may not purchase any part of the estate for himself, but he can personally benefit under the will unless he was a witness to it. He has no power to carry on the testator's business, except for winding up purposes, or to sell the business as a going concern, unless the will specifically authorises him to carry it on; only then is he entitled to be reimbursed for debts incurred in so doing. If he

carries on the business by arrangement with the creditors and for their benefit, it would also appear that he is indemnified, and in priority to the creditors (*Dowse* v. *Gorton*, [1891] A C. 190). But Joyce, J. (Court of Appeal affirming), refused to extend this rule in a case where no such arrangement with the creditors existed (*in re Oxley*, [1914] 1 Ch. 604). An executor can always, when he is in doubt or difficulty, apply by means of an originating summons to the Court for advice and direction in his duty as executor, and reasonable costs will be allowed to him out of the estate

Duties of Executor.—If it be possible, an executor should pay all debts, legacies, and expenses, and ascertain the residue of the estate, within twelve months of the testator's death—the *executor's year*. This is the ordinary rule, but discretion is allowed, and for good reason the period of realisation will be extended.

The chief duties of an executor or an administrator may be briefly stated as follows :—

(*a*) To pay such funeral expenses as may be reasonable in the circumstances.

(*b*) To obtain valuations of the testator's property, prepare an account or inventory of the same, and take the necessary steps for obtaining probate.

(*c*) To pay the estate duties and obtain probate of the will.

(*d*) To protect and realise the estate as directed by the will.

(*e*) To pay the just debts of the testator, the legacies provided for in the will, and the executorship expenses. [*Note.*—An executor can discharge debts which have been barred by the *Statute of Limitations* if he thinks it desirable so to do.]

(*f*) To keep proper account of his stewardship.

(*g*) To employ solicitors, accountants, or obtain such other professional assistance as may be reasonably necessary.

(*h*) To distribute the residue of the estate in the manner provided for by the will.

(*i*) In cases where the residue is bequeathed to two or more persons in succession, and any part of it is invested in property of an unauthorised, or wasting, or reversionary kind, to realise such residue, and reinvest the proceeds in authorised securities within the executor's year, unless it appears from the will that the original investments are to be retained (*Howe* v. *Earl of Dartmouth* (1802), 7 Ves 137).

Responsibilities of Executor.—Onerous responsibilities attach to the office of executor He is liable to account for all the testator's estate, in so far as it comes into his possession, or should with reasonable care have come into his possession. It is his imperative duty to keep a clear and accurate record of the estate. A *cestui que trust* (see p. 974) is at all times entitled to proper information, and, if he desires, to inspect the records (*Low* v. *Bouverie*, [1891] 3 Ch. 82) An executor must exercise that prudence in dealing with the estate which a business man would ordinarily be expected to use in the conduct of his own affairs.

He is liable for loss incurred through gross negligence in not getting in the estate, e.g. neglecting to sue for a debt till it is statute barred or lost through the debtor's bankruptcy. He is liable if he improperly invests the estate moneys, e.g. by granting a loan without proper security. He may be liable for loss arising from the non-investment of funds retained in his hands an unreasonable time. Compound interest at 4 % per annum is payable in these circumstances. He is liable for the default of such agents as he employs, if he fails to exercise proper supervision over them or if they were improper persons to employ (*Speight* v. *Gaunt* (1883), 9 A.C. 1). If an executor employs trust moneys in his own business he is liable for losses incurred in so doing, and the beneficiaries may claim the profits if any are made; or, if they prefer, they may claim compound interest at 5 % for the period during which the money was used (*Wedderburn* v. *Wedderburn* (1856), 22 Beav. 100).

An executor is liable for any loss incurred owing to the investment of estate moneys in unauthorised securities.

Devastavit.—Any act, such as those mentioned above, which results in loss to the estate is a *devastavit*, a waste of the assets. Where at the hearing of an action for administration of an estate or trust by the Court (and sometimes at a later stage) it is shown that the executor or trustee has failed to get in money which was recoverable, or to invest funds available for investment, an order will be made that the accounts of the estate or trust shall be taken on the footing of wilful default, i.e. the executor or trustee will be charged not alone with his actual receipts, but also with the money which, but for his wilful default, he might have received. The Court of Chancery will itself administer an estate, and appoint a receiver if necessary, when an executor is guilty of misconduct, e.g. habitual drunkenness, or of gross neglect and delay in getting in the estate, or when for prolonged periods he is absent abroad, etc. An order for administration by the Court may also be made in other cases where it appears to be desirable, e g. where the assets are numerous and doubtful and there are complicated claims against the estate. In the last-mentioned case the order is usually granted on the application of a creditor.

Audit.—Any trustee or beneficiary may apply to the Public Trustee for the condition and accounts of any Trust to be investigated and audited by a solicitor or public accountant (S 13, *Public Trustee Act*, 1906). Except with the leave of the court, such an audit cannot take place within twelve months after the previous audit (*ibid.*). Trustees may now in their discretion have the trust accounts audited by an independent accountant, but not more than once in three years, except in special cases (*Trustee Act*, S 22 (4)).

Caveat.—Any person objecting to probate or Letters of Administration being granted to those applying for them may lodge a protest, or *caveat*. The protest holds good for six months, and may be renewed This ensures notice being given to him of any attempt to propound a will or to obtain administration The person lodging the caveat must appear at the subsequent proceedings if he still desires to oppose.

Executor as Transferee of Shares.—Property burdened by onerous covenants such as leases and partly paid shares should be disposed of as soon as possible. By S 64 of *The Companies Act*, 1929, an executor has the right to transfer shares direct to a purchaser without being himself registered as a member of the company The share transfer in such cases is executed by "The executors of the late ...." direct to the purchaser. If he so elects, an executor is entitled to be placed personally upon the register, but by so doing he becomes liable for any calls that may be outstanding. For this and other reasons it is usual to register "Probate" only upon the books of limited companies. This registration does not confer the right to attend or vote at meetings of the company. In such cases it is usual to endorse the testator's old certificate with the names of the executors. Dividend warrants are usually made out in favour of the sole or the executor first named in the will, but there is a bewildering variation in practice in this matter. In the event of new issues of capital being made, an executor of the estate of a deceased member of the company is entitled to a *pro rata* allotment, and can sell the rights to a nominee.

If there is any apparent discrepancy in the name or description of the deceased as set out in the grant of probate, the company will demand a *declaration of identity*, or an affidavit in the case of foreign shareholders If everything is in order, particulars of the grant are entered by the company in their *Register of Probates and Letters of Administration*. Specimen signatures of the executors or administrators are also obtained. The grant is then marked, often with a rubber stamp, as having been duly registered and the fee (2s 6d.) paid. Some companies, especially banking companies, require the shares to be transferred to the executor personally. In such cases the transfer must bear a 10s. deed stamp Other companies accept a letter requesting registration, in which case no stamp is required.

Trustee Securities.—The securities in which an executor is authorised to invest, in the absence of specific instructions in the will, are set out in the *Trustee Act*, 1925, and the *Colonial Stock Act*, 1900. If he invests in, or continues to hold, unauthorised securities, he is personally responsible for any loss that may result. Money must not be kept on deposit for an unreasonable time to the detriment of the estate, and still less should it be kept on current account; it should be invested in authorised securities (*Tebbs* v. *Carpenter*, 1 Madd. 290).

Authorised Investments —These comprise :—

Parliamentary stocks or public funds or Government securities of the United Kingdom, e g. Consols, Local Loans Stock, Exchequer Bills, Conversion Loan, War Loan 4½ %, 1925–45, War Loan 5 %, 1929–47, 4 % Funding Loan and 4 % Victory Bonds.

Real or heritable securities of the United Kingdom, i.e. on mortgage, not purchase, of freeholds or copyholds, for not more than two-thirds of their value as reported by a surveyor.

Stock of the Bank of England or Bank of Ireland.

India Stocks, e g. $2\frac{1}{2}$ %, 3 %, $3\frac{1}{2}$ %, $4\frac{1}{2}$ %, $5\frac{1}{2}$ %, 6 % and 7 %.

Securities the interest of which is guaranteed by Parliament.

Metropolitan Consolidated $3\frac{1}{2}$ %, 3 % and $2\frac{1}{2}$ % Stocks, and London County Council $2\frac{1}{2}$ %, 3 %, $3\frac{1}{2}$ %, and 5 % Stocks, and Metropolitan Water Stock

Debenture or rent charge, or guaranteed or preference stock, of any Railway Company in the United Kingdom, incorporated by special Act, having for ten years next before investment paid a dividend of not less than 3 % on its ordinary stock, or Stocks of Railways, etc., leased for not less than two hundred years at a fixed rental by companies of the above-named description. The great railways amalgamated under *The Railways Act*, 1921, are treated as having paid a 3 % dividend on their ordinary stocks for the ten years preceding amalgamation.

Debenture Stock of any Railway Company in India, the interest on which is paid or guaranteed by the Secretary of State in Council of India. Any capital stock which may be issued by the Secretary of State in Council of India under any Act of Parliament and charged on the revenues of India.

B Annuities of the Eastern Bengal, East Indian and the Scinde, Punjaub, and Delhi Railways, and Indian Railway stocks on which a fixed sterling dividend is paid or guaranteed by the Indian Government.

The nominal or inscribed stock of any Municipal Borough having a population exceeding 50,000, or stock issued by any County Council under the authority of an Act of Parliament or Provisional Order.

Certain stocks issued by Water Companies and Water Boards.

Any securities permitted by the High Court for the investment of cash under its control. (*Note.*—The rules of the Supreme Court allow investment in practically the same list of securities as that set out in this place, but in the case of railway prior securities, the rules stipulate for *a* dividend—not a 3 % dividend—having been paid on ordinary stocks for the last ten years.)

Colonial Government Stocks in respect of which the Treasury requirements under the *Colonial Stock Act*, 1900, have been complied with.

Irish Free State securities are excluded.

Local bonds issued under the *Housing (Additional Powers) Act*, 1919.

Securities of the Government of Northern Ireland.

Stocks held must normally be either "registered" or "inscribed" in the name of the executor or trustee, but under S. 7, *Trustee Act*, 1925, bearer securities, if otherwise of an authorised nature, may be held, provided that they are deposited for safe custody and collection of income with a bank, unless prohibited by the trust instrument.

A trustee may not purchase certain of the foregoing securities—viz. British Railway, most Indian Railway, Municipal (other than L.C.C.), Water Company, Local Bonds under the *Housing (Additional Powers) Act*, 1919, and Colonial Stocks—if such Stocks are redeemable, at over 115 % of their redemption value, neither

may he purchase, at over redemption value, any securities redeemable within fifteen years of the date of purchase

If a stock already held by a trustee drops out of the authorised trustee list he may nevertheless continue to hold it as a trustee investment, but, of course, he may not purchase more of the stock unless it regains its place as a trustee stock.

Release of Executor.—On conclusion of his duties, an executor has the right to demand a formal *release* under seal of the residuary legatee, i.e. an acknowledgment that all sums payable by him have been paid, and a discharge from all claims, though it appears that he has no right to anything more than a receipt from a pecuniary legatee

Trustee.—A trustee is a person appointed to administer a trust fund, technically known as the *corpus*. The legal estate in the corpus is vested in the trustee, but the equitable interest, i.e. the right to receive the profits thereof, belongs to the *cestuis que trustent* (sing. *cestui que trust*), now usually termed the "beneficiaries." Executors often act in the dual capacity of executors and trustees. They first act as executors, and then, if the testator has left any of his property in trust, are also usually appointed to deal with the trust property. It is not always easy to decide when an executor is *functus officio* (i.e. one who has discharged his duties) and has become purely a trustee. But when the debts and funeral and testamentary expenses have been paid, and the property which represents the settled portion of the estate is realised and invested, only a trustee's duties remain. A trustee cannot delegate his authority to a co-trustee, unless the latter is a Trust Corporation. (See also p. 968 as to delegation under S 25, *Trustee Act*, 1925.) The rights and duties of trustees with relation to the investment of trust funds are set out in the *Trustee Act*, 1925. Lindley, L.J., in *Low* v. *Bouverie*, [1891] 3 Ch 82, at page 99, said: "The duty of a trustee is properly to preserve the trust fund, to pay the income and the corpus to those who are entitled to them respectively, and to give all his *cestuis que trustent*, on demand, information with respect to the mode in which the trust fund has been dealt with and where it is."

Custodian Trustee.—A Trust Corporation is defined in S. 55 (xxvi), *Administration of Estates Act*, 1925, as "the Public Trustee or a Corporation either appointed by the Court in any particular case to be a Trustee, or entitled by rules made under sub-section (3) of section 4 of the *Public Trustee Act*, 1906, to act as Custodian Trustee." Under the *Public Trustee Act*, 1906 (S. 4), the Public Trustee, and certain corporate bodies, e.g. with an issued capital of £250,000 of which £100,000 or more is paid up in cash, in addition to their capacity to act as trustees with full powers, may be appointed to act as a *Custodian Trustee.* By S 3, *Law of Property (Amendment) Act*, 1926, trustees in bankruptcy and trustees under Deeds of Arrangement are "Trust Corporations." The trust property is transferred to the Custodian Trustee as if he were sole trustee, and for that purpose vesting orders may be made, where necessary, under the *Trustee Act*, 1925. The management of the trust and

the exercise of any power or discretion exercisable by the trustees under the trust remains vested in those trustees, but the Custodian Trustee has the custody of all securities and documents of title relating to the trust property, subject to the right of the managing trustees to have free access to them and to take copies or extracts from them. All sums payable to or out of the income or capital of the trust property are to be paid to or by the Custodian Trustee. A Custodian Trustee has power to charge fees not exceeding those chargeable by the Public Trustee as Custodian Trustee.

Letters of Administration.—Where a person dies intestate, or where no executors have been named in the will, or, being named, refuse to act, or where from any other cause the appointment fails, a document under the above title is issued by the Probate Division of the High Court appointing an Administrator.

By the *Non-Contentions Probate Rules*, 1925. (A) Where the deceased left a will, the priority of right to a Grant of Probate or Administration *cum testamento annexo* is as follows. (1) Executors, (2) Residuary Legatees or Devisees in Trust, (3) Residuary Legatees or Devisees for Life, (4) Ultimate Residuary Legatees or Devisees, or, where the residue is not wholly disposed of, the persons entitled upon an intestacy, (5) the Legal Personal Representatives of persons indicated in (4); (6) Legatees or Devisees, or Creditors, (7) Contingent Residuary Legatees or Devisees, or persons having no interest in the estate, who would have been entitled to a grant had the deceased died intestate, (8) The Crown. (B) Where the deceased died wholly intestate, the priority of right to a grant of administration is as follows· (1) Husband or wife; (2) Children, or other issue of deceased, taking *per stirpes*, (3) Father or mother, (4) Brothers and sisters of the whole blood, or the issue of deceased brothers or sisters of the half-blood, taking *per stirpes*, (5) Brothers and sisters of the half-blood, or the issue of deceased brothers and sisters of the half-blood, taking *per stirpes*; (6) Grandparents; (7) Uncles and aunts of the whole blood, or the issue of deceased uncles and aunts of the whole blood, taking *per stirpes*; (8) Uncles and aunts of the half-blood, or the issue of deceased uncles and aunts of the half-blood, taking *per stirpes*; (9) the Crown; (10) Creditors.

If, at the expiration of twelve months from the death of a person, any personal representative of the deceased to whom representation has been granted is residing out of the jurisdiction a grant *durante absentia* may be made By the *Administration of Estates Act*, S. 10, the Court is to have regard to the rights of all persons interested. Where the deceased died wholly intestate, administration must be granted to some one or more persons interested under the Act in his residuary estate, unless the Court decide otherwise. And, in regard to land settled previously to the death of the deceased, administration must be granted to the Trustees of the settlement (if any) who are willing to act. By S 13 representation may be granted in respect of real estate, or any part thereof, separate or together with the personal estate. Representation may be granted also in respect of a trust estate only, and a grant in respect of real estate may be limited in any way the Court thinks proper.

Grants of Administration.—A grant of administration may be either general or limited. The former confers full powers to deal with the estate; the latter is limited either in scope, or time, or direction, or purpose. Grants of administration are of various kinds:—

(*a*) *Cum Testamento Annexo* (i.e. with the will annexed).—This is a grant made to the person having the greatest interest in the estate, usually the residuary legatee, in cases where the executors have renounced or died before the testator, or if no executor has been appointed.

(*b*) *Durante Minore Ætate.*—This is a grant made when the only executor is a minor to the guardian of such minor until he comes of age.

(*c*) *Durante Dementia.*—This is a grant made to hold good during the lunacy of an executor or administrator.

(*d*) *Durante Absentia.*—In this case the grant is valid during the absence abroad of an executor or next of kin. See above.

(*e*) *Pendente Lite.*—Where an action concerning the validity of the will, or probate, or the right of administration is pending, the Court will appoint an administrator to act *pendente lite*, i.e. until the hearing and decision. Such an administrator has no power to distribute the residue of the personal estate. He may receive such remuneration as the Court may direct.

(*f*) *De Bonis non Administratis.*—Where an administrator dies before he has distributed all the estate of an intestate, or where an executor dies intestate before he has completed distribution, the administration granted is called an administration *de bonis non administratis*, i.e. of the goods not administered, or, in short, an administration *de bonis non*.

(*g*) *Ad litem.*—Where the proper representative will not act, and it is necessary for the estate to be represented in litigation, the Court may appoint an administrator to act *ad litem*.

An administrator, like an executor, has power to retain his own debt in full in preference to other creditors of equal degree, but not if he was appointed administrator because he was a creditor, since his bond takes away the right in such a case. Like an executor, too, he may prefer one creditor to another of equal degree (see p. 969).

Probate.—Probate consists of an official copy of the will, together with a document under seal of the Probate Registry stating that the will has been proved by the executors or one of them. Probate is the legal evidence that the will has been proved, and of the due appointment of the executor or executors. In strict law, an executor may do almost all the things incidental to his office before probate is granted. He may take possession of the estate, pay debts, assent to legacies, bring actions, and contract to sell the estate. But if he sues he must obtain probate before trial, and if he sells, a purchaser will require to see probate

before he completes, otherwise it may be shown that there was a later will or that the will was invalid. It is this initial inability to deal with the assets prior to obtaining probate that frequently makes it necessary to obtain a temporary loan from the bankers in order to pay the Estate Duty, which must be paid before probate is granted where the value of the gross estate exceeds £100.

Estate Duty Account.—In order to obtain probate, an account called the *Estate Duty Account* must be prepared upon the official forms of "Inland Revenue Affidavit." These are obtainable from the Inland Revenue Authorities, and on them is required to be shown (*a*) the gross value of the estate left by the testator in very full detail; (*b*) the authorised deductions; (*c*) the net amount liable to duty. When collecting information for estate duty purposes, care must be taken that all the real and personal property of the testator is scheduled, including any reversions in which the deceased was interested.

If the testator has kept methodical records, the task of preparing the Inland Revenue Affidavit will be easy. Unfortunately, the contrary is often experienced, and then information regarding the assets must be sought from the testator's papers. The testator's bankers should be applied to for Pass Books, and particulars of any securities deposited with them for safe custody, and of any sums placed with them on deposit by the deceased. As a rule banks do not volunteer this information, and in one case within the author's experience a parcel of bearer bonds to the value of £10,000 remained with the bankers for years before its existence was discovered by the executors or the beneficiaries.

Information should also be sought from the testator's solicitors, accountants, stockbrokers, estate agents, or any other professional men likely to be in a position to supply material for the preparation of the Estate Duty Account. A Balance Sheet up to the date of death must also be obtained from the business undertaking in which the deceased was a partner. A copy of this Balance Sheet signed by the surviving partners must accompany the Estate Duty Account, and the deceased's share in the real and personal property as a partner must be stated under the appropriate heading in that account. Valuations of the various assets must then be made. It is customary to obtain a stockbroker's valuation of the investments, and, in cases where the stockbroker is to act in the subsequent realisation of the estate, such valuation is made, as a rule, without charge. In small estates a professional valuation is often unnecessary, and the Stock Exchange Official List and other published lists of market quotations are accepted in support of the Estate Duty Account The closing market quotations on the day of the testator's death are taken, and a quarter of the difference between the two prices quoted is added to the lower price, which then forms the basis of the valuation.

Example.—A testator left £100 Canadian Pacific Perpetual Debenture Stock. This stock was quoted as on the date of death at 86-88. The difference between these two prices is two, one-quarter of which is a half.

The probate valuation of this security is therefore as follows :—

	£	s.	d.
£100 Stock at the lower price quoted	86	0	0
Add one-quarter of the difference between the two prices quoted	0	10	0
Value of Stock for probate purposes	£86	10	0

Should the testator die upon a Sunday, Bank Holiday, or other day upon which no quotations are available, the price for either the previous or the succeeding day must be taken. In the case of unquoted securities, letters from the secretaries of the various companies, certifying the price at which recent dealings have taken place, must be produced.

If the household effects embrace pictures, china, plate or furniture of value, an expert valuation is usually insisted upon In small estates the executor's valuation, if it appears to be reasonable, will be accepted. The same remark also applies to valuations of land or house property, which, if leasehold, is personal estate. Foreign money must be converted at the exchange rate as on the date of death. Bills of Exchange are included at their present value as on the same date. Valuations must be obtained from the Assurance Societies concerned for insurance policies held by the testator on the lives of others.

In most cases it will be necessary to arrange a temporary loan by the bankers to meet the amount due for Estate Duty on the personal estate, which must be paid before probate will be granted.

All rents, dividends, interest, and other income accrued due at the date of death must be included in the account, for that is part of the capital of the estate.

All movable property situate out of the United Kingdom must also be included, but where a person is domiciled abroad it is only the property situate within the United Kingdom that is liable to duty. Immovable property situate out of the United Kingdom is not, wherever the deceased was domiciled, liable to Estate Duty in the United Kingdom. The liabilities can be ascertained by advertising the death and requesting claims to be sent in. These advertisements are inserted not alone for information, but also for the protection of the executor or administrator. For, by advertising, the personal representative of the deceased may safely proceed to distribute the estate, after satisfying the claims of which he has notice. He is not liable to creditors of whose claims he was without notice, but such creditors have the right to follow the assets into the hands of a beneficiary. It is usually sufficient to advertise once in the *Gazette*, once in a London daily paper, and twice in local papers circulating in the district where the deceased resided or carried on business; but where the estate is quite small less extensive advertising would probably suffice. Creditors must be given not less than two months within which to send in their claims. These advertisements are not issued until

probate or administration has been granted. The *Trustee Act*, 1925, S. 27, as amended by *Law of Property (Amendment) Act*, 1925, Sch., gives to the personal representative, who has properly advertised for creditors, etc , and then proceeded to distribute assets, the same protection as he would have in an administration in Court, although an unpaid creditor may follow the assets into the hands of the beneficiaries to recover his debt

Enquiries must be made into any gifts made by the testator during the three years immediately preceding his decease, known as gifts *inter vivos*. Such gifts made during the three years preceding death are liable to Estate Duty unless (*a*) they are proved to have been part of the normal expenditure of the deceased and reasonable, having regard to his income and the circumstances, or (*b*) they were made in consideration of marriage, or (*c*) they did not exceed in the case of any donee in the aggregate £100 in value, or (*d*) they were made for public or charitable purposes more than twelve months before the death, or (*e*) they were made in reduction of the National Debt. If liable, such gifts must appear in the Affidavit, and the recipients, not the executors, are liable for the Estate Duty payable thereon. The same remarks apply to those gifts known as *donationes mortis causâ*. A *donatio mortis causâ* is valid only if (*a*) it was given in view of the donor's death; (*b*) the donor actually delivers the property to the donee, or does some symbolic act tantamount to delivery, e.g. hands over the key of a box containing the property; (*c*) the donor dies from the very malady from which he suffered at the time of making the gift.

An affidavit called the " Oath " must be sworn by the executor or administrator, wherein he promises that he will administer the estate according to law, will exhibit a true and perfect inventory of the estate, and will render a just and true account of it whenever required by law to do so. This document, together with the original will, and the Inland Revenue Affidavit, must be filed at the Principal or District Registry of the Probate, Divorce, and Admiralty Division of the High Court of Justice, and the Estate Duty on the personal property must be paid.

The above is the process for proving the will in *Common Form*. If it is desired to prove the will in *Solemn Form*, proceedings must be taken in the Court. All parties interested are cited to appear, witnesses are examined on oath, and the Court pronounces upon the validity or otherwise of the will. Where the validity of the will is disputed, proof in solemn form is advisable, but such cases are the exception and not the rule.

Probate will not be granted until the expiration of seven days from the death of the testator, and Letters of Administration will not be issued till fourteen days after the death. Probate or administration should be ordinarily taken out within six months after the death, and where it is not taken out until after three years satisfactory reasons for the delay must be given to the Registrar.

Corrective Affidavit.—If property is discovered or comes into

possession after the Affidavit for Probate has been returned, particulars must be furnished in a subsequent affidavit under this title, and the additional duty be paid. If new liabilities are disclosed, or it is found that property has been overvalued, adjustments can be effected in the same way, and repayment of duty be claimed. A fall in the value of securities between the date of probate and that of realisation gives no claim to a return of duty.

Devolution on Intestacy.

Property in England is divided into two kinds, *Realty* and *Personalty*. Real property consists of freehold land and all estates and interests in land held for life, but not those held for a term only. All other property is personal property. On the death of an owner intestate, these two kinds of property descend in the same way. By the *Administration of Estates Act*, 1925, S. 1, the whole estate, both real and personal, vests in the first instance in the Executor or Administrator. The rules of devolution deal only with the beneficial interest in property.

Movable and Immovable Property.—Questions may arise as to property situated abroad or as to the devolution of the effects of persons who are domiciled elsewhere than in this country. Immovable property, which includes all interests in land, descends according to the law of the place where it is situated, and for the purposes of devolution on intestacy it makes no difference where the deceased was domiciled, or to what nation he belonged. Movable property, i.e. personal property, depends for its destination upon the law of the place where its deceased owner was domiciled at the time of his death, wherever the property itself may have been situated. For the purpose of these rules leasehold property, although for historical reasons considered as personalty by English law, comes under the heading of immovables.

Succession to Real and Personal Estate.—If the intestate leaves a husband or wife and no relations, the husband or wife takes everything. If the intestate leaves a husband or wife and children or other relation whom the law recognises as such the husband or wife takes first, the "personal chattels" These include furniture, jewellery, pictures, prints, plated articles, linen, china, books and articles of household or personal use or ornament, horses, carriages, motor-cars (unless used for business purposes), garden and stable effects, musical and scientific instruments, wines and consumable stores, but not securities for money.

The husband or wife takes next, £1,000, free of death duties and costs, with interest at 5 % from the date of death.

Lastly, the surviving husband or wife takes, if there are no children, the income from the remaining property during his or her life.

If there is issue the husband or wife takes one-half the income of the residue for his or her life.

If the intestate leaves issue, such issue take the estate subject to the rights of the surviving husband or wife on what are called "statutory trusts." These are in equal shares for the children living at the death of the intestate who attain 21 or marry under that age, the issue living at the death of the intestate who attain 21 or marry of any child of the intestate who predeceases him or her, taking the share which the parent would have taken if living at the death of the intestate.

If there is no issue the estate goes (subject to the right of the surviving husband or wife) to the parents equally between them, or if there is but one parent then to that one parent.

If there are no parents the estate goes (subject always to the rights of the surviving husband or wife) to

(i) The brothers and sisters of whole blood equally between them on the "statutory trusts" (i e. in effect, to their issue)
(ii) Failing these, to brothers and sisters of the half-blood on the "statutory trusts."
(iii) Failing these, to the grandparents in equal shares
(iv) Failing these, to uncles and aunts, being brothers or sisters of the whole blood of a parent of the intestate, on the "statutory trusts."
(v) Failing these, to uncles and aunts being brothers or sisters of the half-blood of a parent of the intestate on the "statutory trusts."
(vi) Failing all the above, to the surviving husband or wife.
(vii) In default of all the above, the Crown or the Duchy of Lancaster, or the Duke of Cornwall take the estate as *bona vacantia*

"**The Statutory Trusts**" are set out in S 47. Their effect in the case of issue of the intestate is set out above. The trusts for other relatives are to correspond with these The relatives who take must, therefore, in order to acquire a vested interest, attain 21 or marry; and the issue of relatives who would have taken a share if they had survived the intestate, take in their parents' place. "Such issue to take through all degrees according to their stocks, in equal shares if more than one, the share which their parent would have taken if living at the death of the intestate." If, therefore, a brother of the intestate has died before him leaving children, these children, nephews, and nieces of the intestate, take in their father's place, in priority to grandparents or uncles. If an uncle, who would have taken, if he had survived the intestate, dies before him, leaving children, these children, first cousins of the intestate, take in their father's place.

The Crown, or the Duchy, or the Duke, may out of the estates thus acquired by them for want of first cousins or their issue, provide "in accordance with existing practice" for dependants of the intestate, and other persons for whom the intestate might reasonably have been expected to make provision.

Where issue of the intestate die without having acquired a vested interest the property goes as though no interest had been taken by such issue. Shares in effect therefore vest at 21, or earlier marriage, and if the child dies under 21 and without having married it will not be necessary to take out letters of administration to his or her estate. So if the children of an intestate die under 21 and without having been married, the intestate's property goes as if he had died without leaving issue.

Redemption of Husband's or Wife's Life Interest.—The personal representative may purchase or redeem the life estate of the husband or wife with his or her consent, and may raise money required for the purpose on the security of the residuary estate, other than the personal chattels. In the same way power is given to mortgage to raise the £1,000 to which the husband or wife is entitled.

The text of SS 46 and 47, *Administration of Estates Act*, 1925, is so important that it is thought advisable to reprint these sections hereunder:—

Succession to Real and Personal Estate on Intestacy.

S. 46 —(1) The residuary estate of an intestate shall be distributed in the manner or be held on the trusts mentioned in this section, namely:—

(i) If the intestate leaves a husband or wife (with or without issue) the surviving husband or wife shall take the personal chattels absolutely, and in addition the residuary estate of the intestate (other than the personal chattels) shall stand charged with the payment of a net sum of one thousand pounds, free of death duties and costs, to the surviving husband or wife with interest thereon from the date of the death at the rate of five pounds per cent. per annum until paid or appropriated, and, subject to providing for that sum and the interest thereon, the residuary estate (other than the personal chattels) shall be held—

(*a*) If the intestate leaves no issue, upon trust for the surviving husband or wife during his or her life;

(*b*) If the intestate leaves issue, upon trust, as to one-half, for the surviving husband or wife during his or her life, and, subject to such life interest, on the statutory trusts for the issue of the intestate; and, as to the other half, on the statutory trusts for the issue of the intestate, but if those trusts fail or determine in the lifetime of a surviving husband or wife of the intestate then upon trust for the surviving husband or wife during the residue of his or her life;

(ii) If the intestate leaves issue but no husband or wife, the residuary estate of the intestate shall be held on the statutory trusts for the issue of the intestate;

(iii) If the intestate leaves no issue but both parents, then, subject to the interests of a surviving husband or wife, the residuary estate of the intestate shall be held in trust for the father and mother in equal shares absolutely;

(iv) If the intestate leaves no issue but one parent, then, subject to the interests of a surviving husband or wife, the residuary estate of the intestate shall be held in trust for the surviving father or mother absolutely;

(v) If the intestate leaves no issue or parent, then, subject to the interests of a surviving husband or wife, the residuary estate of the intestate shall be held in trust for the following persons living at the death of the intestate, and in the following order and manner, namely —

First, on the statutory trusts of the brothers and sisters of the whole blood of the intestate, but if no person takes an absolutely vested interest under such trusts, then

Secondly, on the statutory trusts for the brothers and sisters of the half-blood of the intestate, but, if no person takes an absolutely vested interest under such trusts, then

Thirdly, for the grandparents of the intestate and, if more than one survive the intestate, in equal shares; but if there is no member of this class, then

Fourthly, on the statutory trusts for the uncles and aunts of the intestate (being brothers or sisters of the whole blood of a parent of the intestate); but if no person takes an absolutely vested interest under such trusts, then

Fifthly, on the statutory trusts for the uncles and aunts of the intestate (being brothers or sisters of the half-blood of a parent of the intestate); but if no person takes an absolutely vested interest under such trusts, then

Sixthly, for the surviving husband or wife of the intestate absolutely.

(vi) In default of any person taking an absolute interest under the foregoing provisions, the residuary estate of the intestate shall belong to the Crown or the Duchy of Lancaster or to the Duke of Cornwall for the time being, as the case may be, as *bona vacantia*, and in lieu of any right to escheat.

The Crown or the said Duchy or the said Duke may (without prejudice to the powers reserved by section nine of the Civil List Act, 1910, or any other powers), out of the whole or any part of the property devolving on them respectively, provide, in accordance with the existing practice, for dependants, whether kindred or not, of the intestate, and other persons for whom the intestate might reasonably have been expected to make provision.

(2) A husband and wife shall for all purposes of distribution or division under the foregoing provisions of this section be treated as two persons.

Statutory Trusts in favour of issue and other classes of Relatives of Intestate.

S 47.—(1) Where under this Part of this Act the residuary estate of an intestate, or any part thereof, is directed to be held on the statutory trusts for the issue of the intestate, the same shall be held on the following trusts, namely.—

(i) In trust, in equal shares if more than one, for all or any the children or child of the intestate, living at the death of the intestate, who attain the age of 21 years or marry under that age, and for all or any of the issue living at the death of the intestate who attain the age of 21 years or marry under that age of any child of the intestate who predeceases the intestate, such issue to take through all degrees, according to their stocks, in equal shares if more than one, the share which their parent would have taken if living at the death of the intestate, and so that no issue shall take whose parent is living at the death of the intestate and so capable of taking,

(ii) The statutory power of advancement, and the statutory provisions which relate to maintenance and accumulation of surplus income, shall apply, but when an infant marries, such infant shall be entitled to give valid receipts for the income of the infant's share or interest;

(iii) Where the property held on the statutory trusts for issue is divisible into shares, then any money or property which, by way of advancement or on the marriage of a child of the intestate, has been paid to such child by the intestate or settled by the intestate for the benefit of such child (including any life or less interest and including property covenanted to be paid or settled) shall, subject to any contrary intention expressed or appearing from the circumstances of the case, be taken as being so paid or settled in or towards satisfaction of the share of such child or the share which such child would have taken if living at the death of the intestate, and shall be brought into account, at a valuation (the value to be reckoned as at the death of the intestate), in accordance with the requirements of the personal representatives.

(iv) The personal representatives may permit any infant contingently interested to have the use and enjoyment of any personal chattels in such manner and subject to such conditions (if any) as the personal representatives may consider reasonable, and without being liable to account for any consequential loss.

(2) If the trusts in favour of the issue of the intestate fail by reason of no child or other issue attaining an absolutely vested interest,

(a) The residuary estate of the intestate and the income thereof and all statutory accumulations, if any, of the income thereof, or so much thereof as may not have been paid or applied under any power affecting the same, shall go, devolve and be held under the provisions of this Part of this Act as if the intestate had died without leaving issue living at the death of the intestate;
(b) References in this Part of this Act to the intestate "leaving no issue" shall be construed as "leaving no issue who attain an absolutely vested interest";
(c) References in this Part of this Act to the intestate "leaving issue" or "leaving a child or other issue" shall be construed as "leaving issue who attain an absolutely vested interest"

(3) Where under this Part of this Act the residuary estate of an intestate or any part thereof is directed to be held on the statutory trusts for any class of relatives of the intestate, other than issue of the intestate, the same shall be held on trusts corresponding to the statutory trusts for the issue of the intestate (other than the provision for bringing any money or property into account), as if such trusts (other than as aforesaid) were repeated with the substitution of references to the members or member of that class for references to the children or child of the intestate.

Only those children who are legitimate according to the law of England are entitled to succeed to their parent's estate. By the *Legitimacy Act*, 1926, subsequent marriage by the parents of an illegitimate child makes the child legitimate as from the date of marriage, or 1st January, 1927, whichever date is the later, and (speaking in general terms) he or she is entitled to succeed to real and personal estate in the same way as if he or she were born legitimate. Where the right to property depends on seniority, children so legitimated rank as if they had been born on the date on which they were legitimated. Adopted children do not share in an intestacy.

Estates Tail.—An *estate tail* is an interest in land which has been limited by its creator in such a way as to descend only to the actual descendants of the first holder of the estate. When a tenant in tail, as the holder of an estate tail for the time being is called, dies, his nearest heir in the direct line from the first holder of the estate will succeed him. An estate tail may be limited to descend only to males, and in this case all female heirs and heirs through females will be excluded entirely. An estate tail cannot be dealt with by will, but a tenant in tail can convert it into a fee simple during his lifetime by executing and enrolling a disentailing deed

Another interest in land to which a deceased person may have been entitled is an estate for the life of another. If the person

for whose life the estate was held is still alive at the death of the holder, the interest will devolve upon the heir of the deceased, if it was limited to him and his heirs, but otherwise will descend in the same manner as personalty, provided, of course, in each case that the holder died without making any testamentary disposition of his interest.

Hotchpot.—The intention of S. 46 of the *Administration of Estates Act*, 1925, based upon the presumption that a parent intends equality between his children, is that all the children of an intestate father or mother shall share equally in the estate. And so, where any considerable sum has, during the intestate's life, been given to a particular child, not merely for educational purposes, but in order to further the child's advancement in life, e.g. to purchase for the child a share in a partnership, or settled on his or her marriage, the child has the option of bringing the sum advanced into the general estate in order to secure an equal division with the other children. This is called "bringing an amount into hotchpot." The value is to be taken as at the death of the intestate (S. 47, (iii)). The rule also applies on a partial intestacy. The child is not bound to bring the sum advanced into hotchpot, but, unless it is brought in, no further share in the personal estate can be claimed. Where a settlement of personal estate is made in favour of the children in such shares as the parent may appoint, and in default of appointment amongst the children equally, it is usual for the will to contain a hotchpot clause by which a child who has received a share under the power to appoint must, in order to share in the unappointed part of the personalty, bring the amount into hotchpot. Interest at 4 % per annum is chargeable on sums brought into hotchpot from the date of the intestate's death. Where a child has benefited by an advancement, evidence may be adduced, if such there be, to rebut the presumption that the parent intended his children to share equally, and so to relieve the child in question from the hotchpot rule. Wills frequently direct that moneys advanced to children during the life of the testator are to be treated as gifts, and not to be brought into account. Any sums brought into hotchpot are for the benefit of the other children, not of the widow or widower, whether on intestacy or under a hotchpot clause in a will.

Illustration.—A died intestate, leaving a net estate of £6,720 after paying all debts and expenses (including £280 Estate Duty at 4 %). A left a son, a daughter, and two grandchildren, issue of a deceased son. During the intestate's lifetime £500 had been advanced to the surviving son to purchase a partnership.

DIVISION OF THE ESTATE.

(*a*) If the advance was made within the three years preceding death:—

	£	£
Net Estate		6,720
Add: Advance	500	
Less: Estate Duty paid thereon by son at 4 % . .	20	
		480
		£7,200

		£	
The son is entitled to one-third of £7,200 ..	=	2,400	
Less. Net advance		480	
			1,920
The daughter takes one-third			2,400
The deceased son's children share the remaining third equally, i e. £1,200 each .. .			2,400
			£6,720

(*b*) If the advance was made more than three years prior to the death:—

		Division			
		Son	Daughter	Grandchildren 1.	Grandchildren 2.
Net estate .	£6,720				
Add back.—					
Estate Duty .	280				
Advance .	500				
	£7,500	($\frac{1}{3}$rd) 2,500	($\frac{1}{3}$rd) 2,500	($\frac{1}{6}$th) 1,250	($\frac{1}{6}$th) 1,250
Less: Advance		500			
		2,000			
Deduct: Estate Duty proportionately to above shares		$\left(\frac{2,000}{7,000}\right)$ 80	$\left(\frac{2,500}{7,000}\right)$ 100	$\left(\frac{1,250}{7,000}\right)$ 50	$\left(\frac{1,250}{7,000}\right)$ 50
		£1,920	£2,400	£1,200	£1,200

NOTE.—If the Estate Duty were not apportioned as above, but the gross advance brought into hotchpot with the net estate, the surviving son would be made to bear part of the Estate Duty properly attributable to the other shares, which would be inequitable

If the advanced beneficiary has to pay Estate Duty personally on his advance, owing to the deceased dying within three years after the gift was made. the advance must be reduced thereby (*re* Beddington [1900], 1 Ch. 771). And if the advance was made more than three years before death, so that it is not liable to Estate Duty, the advance must be brought into hotchpot with the amount of the estate before deducting Estate Duty, and the Estate Duty be apportioned among the beneficiaries on the basis of the resultant shares (*re* Tollemache, *Ferres* v. *Public Trustee*, L.N. 1930).

Legacies.—A legacy is a bequest or gift of personal estate by will. The recipient is termed the *legatee*. If the gift is of the residue of the estate after all debts and other legacies have been paid the person benefiting is termed the *residuary legatee*. If no residuary legatee is named in the will, the residue of the personal property devolves as a partial intestacy. A legacy may be (*a*) specific, or (*b*) general, or (*c*) demonstrative; further, it may be (*d*) payable immediately on the death of the testator, or (*e*) in the future. Future legacies may be (*f*) vested or (*g*) contingent.

(*a*) *Specific Legacy*.—A specific legacy is a gift of some definite and clearly identifiable part of the testator's estate. For example, "All my shares in Hugh Dickson, Ltd.," "The picture by Lawrence which hangs in my dining-room." It is

important to remember that, while the Courts always seek to give effect to the demonstrable intention of a testator, yet in the eyes of the law the will speaks as from the death of the maker, unless a contrary intention is clearly expressed. If, therefore, at the time of death the property bequeathed does not remain *in specie* as described in the will, if, for example, the shares in Hugh Dickson, Ltd., had been sold subsequent to the making of the will and prior to the death, or if a debt specifically bequeathed is subsequently received by the testator, then the bequest fails. The legacy is said to be revoked by ademption. Where part of the property bequeathed is sold or altered in specification the legacy is adeemed *pro tanto*. If the estate is insufficient to pay all the legacies, general legacies are the first to suffer. They must be *abated*, i.e. reduced, *pro rata*. Specific legacies are not affected unless there is insufficient to discharge all the debts without their aid. If that be so, then they too abate *pro rata*. Where a testator by the terms of his will forgives a debt due to him, the amount is considered to be a specific legacy and so liable to duty. The personal representative may appropriate any part of the real or personal estate in its actual condition in or towards satisfaction of any legacy or any other share or interest in the deceased's property, but not so as to prejudice any specific devise or bequest and wherever consents are usually required.

(*b*) *General Legacy.*—A general legacy is one which is provided out of the general estate of the testator. Usually it consists of a gift of money, e g. "I bequeath to C D £1,000," and it may take the form of an annuity If the estate is insufficient to discharge the debts of the testator, general legacies are the first to suffer abatement rateably, but they are not, like specific legacies, subject to failure owing to previous alienation by the testator. Abatement in the case of an annuity takes place on its capital value.

(*c*) *Demonstrative Legacy.*—A demonstrative legacy is one which is payable out of a particular fund, e.g. "I leave E D £500 payable out of my Southern Railway 6 % Preference Stock." It is a general legacy in so far as if the fund should fail, or prove insufficient, it is payable out of the general personal estate; but so long as the fund remains it has the same characteristics as a specific legacy, and in the event of resort having to be had to the specific legacies for the payment of debts, etc., it would then abate with the specific legacies.

(*d*) *Immediate Legacies*—These are legacies which a testator expressly directs to be paid at once. In the absence of such express direction, an executor has twelve months from the death of the testator within which to pay them. If payment is postponed beyond twelve months legacies carry interest at 4 % per annum.

(*e*) *Future Legacies.*—These are legacies payment of which is postponed until the happening of some future event, e.g. upon

the legatee attaining the age of twenty-one, or on the death of a tenant-for-life.

(*f*) *Vested Legacies.*—These are future legacies which according to the form of words used by the testator have been construed by the Courts of Equity as conferring upon the legatee a vested interest in the legacy immediately on the testator's death. In the event of the legatee dying before the specified event has happened, or the time has elapsed, the legacy will be payable to his representatives and form part of his estate. Such a form of words as "I bequeath £500 to A B to be paid on his attaining the age of twenty-one" conveys a vested interest in the legacy, although the time of enjoyment is postponed. But if the words "to be paid" are omitted, and the wording runs "I bequeath to A B the sum of £500 provided (or if, or when, or in the event of, etc) he attains the age of twenty-one," then the wording is construed as conveying to the legatee only a contingent interest in the legacy, and should he die before he reaches that age the legacy lapses.

[The above remarks do not apply to legacies which the testator has charged upon some part of his real estate. The distinction is due to the historic differences between real and personal estate. Such legacies fail if the legatee dies before receiving them, except where the postponement of the legacy has reference to the circumstances of the estate, and not to some event personal to the legatee.]

Lapse.—It is by no means uncommon for those whom a testator proposes to benefit to pre-decease him. When this occurs the legacy or devise is said to *lapse*, or, in other words, becomes void. The property comprised in the lapsed legacy or devise falls into the residue of the testator's estate, and passes to the residuary legatees, or devisees, if there are any. If, however, the testator has not made any disposition of the residue of his estate, there will be an intestacy to the extent of the lapsed gift.

To the above rule there are two exceptions If a gift has been made to any descendant of the testator, then, if there is a descendant of such descendant living at the time of the testator's death, the gift will not lapse if the original beneficiary pre-deceases the testator, but will go just as if such beneficiary had as a matter of fact survived the testator and died immediately after him. This does not mean that the gift will go necessarily to the beneficiary's children. If he has left a will, the gift will be subject to its provisions. If he has died intestate, it will descend in accordance with the rules already laid down. In any case duty will be payable twice, once on the death of the testator and again on that of the beneficiary, the accounts of the latter's estate being amended if necessary for the purpose. This rule will naturally only apply where something more than a life estate is given to the original beneficiary; otherwise his interest would die with him. Further, the rule will not apply where a gift has been made to a class of persons The death of one of them before the testator will only increase the share taken by the others.

The second exception occurs when there has been a devise of an estate tail in real property. An estate tail, it will be remembered, is one which descends only to direct heirs of the original grantee and not to collaterals. Where such an estate is given by will and the donee pre-deceases the testator, the gift will not lapse if the donee has left any descendant capable of inheriting the estate, and such descendant is alive at the testator's death.

Where the testator's intention in giving a legacy was not merely bounty to the legatee, but the discharge of a moral obligation recognised by him, whether legally enforceable or not, the legacy will not lapse by the legatee's death in the testator's lifetime.

A legacy will cease to be payable in the following circumstances: Where a testator has by his will given a legacy to his child or to someone to whom he has been acting as a father, and subsequently he has made provision for the advancement of such legatee, as, for example, by giving a daughter a portion on her marriage, or by buying a son a partnership in a business, the legacy is considered to have been satisfied to the extent of such advancement, and will only be payable so far as its amount exceeds the provision made by the testator for the legatee in his lifetime. This rule does not apply to legacies to strangers, where there is no relation either natural or artificial of father and child. As in other matters, the testator's intention is the primary guide, and the surrounding circumstances, coupled with the words used by the testator, may show an intention to exclude this rule.

Similarly, if in the case mentioned above the testator, instead of making the provision after his will, had agreed to do so beforehand, then, if he had not carried out the agreement before his death, it would be considered, in the absence of words or circumstances showing the contrary, that he intended the legacy as a satisfaction of his pre-existing liability, and it would be for the beneficiary to say under which instrument the benefit should be taken, whether the contract or the will. Both provisions could not be kept.

Assent of Executor.—The assent of an executor is necessary to complete the title of a legatee to a specific legacy or a share of residue. The executor should be careful not to assent until he is satisfied that there will be a residue, or that the specific legacy will not be required for payment of debts.

The personal representative may assent to the vesting in any person who may be in any way entitled thereto, either beneficially, or as trustee, or personal representative, of any real estate to which the testator or intestate was entitled, or over which he exercises a general power of appointment Instead of assenting the personal representative may convey the property to the person entitled.

If the executor or administrator has not paid off the liabilities and distributed the estate in accordance with the terms of the will and/or the rules of intestacy, by the anniversary of death (i.e. the end of the " Executor's Year "), the beneficiaries can apply to the Court to make him show cause for the delay.

Where the legatee or residuary legatee is an infant, a personal

representative may discharge himself of the legacy by appointing a trust corporation, or two or more individuals not exceeding four, and including himself or not, trustees of any devise, legacy, or share of residue to which the infant is entitled, and may vest the devise or legacy in them.

Annuities are treated, for estate duty purposes, as legacies The executor may be (1) directed to purchase an annuity, or (2) to pay it out of a specific fund, or (3) out of the general income of the estate. Where the annuity is payable out of the general income of the estate, the present value is ascertained from the tables in the *Succession Duty Act*, 1853, and is subject to Legacy Duty. If the executors are directed by the will to purchase an annuity, Legacy Duty is payable on the value according to the tables, without regard to the sum spent in purchasing the annuity. The duty may in cases (2) and (3) be paid in four annual instalments, if more convenient to the annuitant, or, if paid at once, is subject to a discount at the rate of 4 % per annum, calculated to the average due date of the instalments. Annuities commence to run from the date of death, but the first payment cannot be claimed until twelve months have expired, unless the will directs otherwise. If the annuity is a perpetual one, the legatee can insist upon being paid its capitalised value In the event of an insufficiency of assets, annuities suffer abatement proportionately, in common with other general legacies The capital value to be abated is arrived at by actuarial valuation of the annuity as at the date of the testator's death.

Death Duties.—The term "death duties" is the generic name given to those levies which the State makes on the property possessed by persons at their death. They comprise (*a*) Estate Duty, (*b*) Legacy Duty, and (*c*) Succession Duty. Estate Duty increases in incidence with the value of the estate; Legacy and Succession Duties vary in incidence according to the relationship which the beneficiary bears to the person deceased.

Estate Duty.—Estate Duty is payable on the net aggregate value of all real and personal property deemed to pass on a person's death, i e. the value of such property after deducting funeral expenses, debts, and other liabilities allowed as authorised deductions. Property deemed to pass includes gifts *inter vivos* made by the deceased within three years before death; *donationes mortis causâ;* and, no matter how many years have elapsed since it was settled, all settled property in which the settlor has retained any interest, or the power to restore the property to himself. To be exempt from duty, property must be settled to the entire exclusion of the settlor. Gifts not exceeding £100 in the case of any donee; gifts in consideration of marriage; charitable or public gifts made more than a year before death; gifts in reduction of the national debt, and normal and reasonable gifts having regard to the social position and manner of living of the deceased, are exempt from duty. But the rules determining what property is deemed to pass and the exceptions are too complicated to be stated in their entirety here

The duty is paid by means of stamps impressed on the Inland Revenue Affidavit, and is a charge against the capital of the estate. No duty is payable on estates of less than £100 in value. To ascertain the amount liable to duty the whole estate, both real and personal, must be aggregated. But where the net value of the real and personal estate does not exceed £1,000 such property is not aggregated, but forms an estate by itself.

Estate Duty is now, by the *Finance Act*, 1930, payable according to the following scale :—

				£ per cent.
Exceeding	£100	and not exceeding	£500	1
,,	500	,,	1,000	2
,,	1,000	,,	5,000	3
,,	5,000	,,	10,000	4
,,	10,000	,,	12,500	5
,,	12,500	,,	15,000	6
,,	15,000	,,	18,000	7
,,	18,000	,,	21,000	8
,,	21,000	,,	25,000	9
,,	25,000	,,	30,000	10
,,	30,000	,,	35,000	11
,,	35,000	,,	40,000	12
,,	40,000	,,	45,000	13
,,	45,000	,,	50,000	14
,,	50,000	,,	55,000	15
,,	55,000	,,	65,000	16
,,	65,000	,,	75,000	17
,,	75,000	,,	85,000	18
,,	85,000	,,	100,000	19
,,	100,000	,,	120,000	20
,,	120,000	,,	150,000	22
,,	150,000	,,	200,000	24
,,	200,000	,,	250,000	26
,,	250,000	,,	300,000	28
,,	300,000	,,	400,000	30
,,	400,000	,,	500,000	32
,,	500,000	,,	600,000	34
,,	600,000	,,	800,000	36
,,	800,000	,,	1,000,000	38
,,	1,000,000	,,	1,250,000	40
,,	1,250,000	,,	1,500,000	42
,,	1,500,000	,,	2,000,000	45
,,	2,000,000			50

Where the gross value of an estate exceeds £100 but not £300, the executor or administrator has the option of paying a fixed duty of £1 10s.; and where the gross value exceeds £300 but not £500, the sum of £2 10s.

Estate Duty is payable on delivery of the Inland Revenue Affidavit, or six months after the death with interest from the day of death till the day of payment at the rate of 4 % per annum. Duty on real property remaining unsold may be paid by eight yearly or sixteen half-yearly instalments with interest at 4 % per annum, but such interest does not begin to run until twelve months from the day of death.

Subject to the conditions laid down, death duties may be paid by transferring to the Inland Revenue Authorities any of the following securities :—

5 % or 6 % Exchequer Bonds, or National War Bonds
5 % War Loan (1929–47) Stock or Bonds
4 % War Loan (1929–42).
4 % Funding Loan (1960–90).
4 % Victory Bonds.

These securities are accepted at the price of issue, with adjustment for interest accrued at the date of transfer, except the 4 % Victory Bonds, which are accepted at their face value (with adjustment for interest) The interest so taken into account is not assessable to Income Tax (*Monks* v. *Fox's Exors.* [1927], 164 L T 436).

Legacy Duty.—This duty is payable by the executor out of the legacy itself, unless the gift is expressly stated to be "free of duty," and then the duty is payable out of the general personal estate. It is levied, with exceptions, upon every gift of personal estate by will; personal estate devolving upon intestacy; *donationes mortis causâ;* debts forgiven; annuities, etc. The scale of duty now payable under the *Finance* (1909–10) *Act*, 1910, is as follows :—

Husband or Wife, Children and their descendants, or any lineal ancestor	£1 %
Brothers and sisters of the deceased and their descendants	£5 %
All other persons	£10 %

Duty at £1 % is not payable where the net property chargeable with Estate Duty does not exceed £15,000, or where the total amount received by the legatee from the estate does not exceed £1,000, or the sum of £2,000 where the legatee is the widow or a child under twenty-one of the deceased

Leaseholds are not liable to Legacy Duty, they being treated for this purpose as part of the real estate. No Legacy Duty is payable where the total estate does not exceed £1,000. The executor must deduct Legacy Duty when paying the legacies, (unless they are "free of duty," when he must provide the duty out of the general estate), and account to the Inland Revenue authorities for the duty within three weeks following. Interest at 4 % per annum is chargeable upon Legacy Duty remaining unpaid beyond three weeks. Receipts on the official forms must be obtained from the legatees, and be stamped with the amount of the duty paid.

Succession Duty.—This duty is, subject to certain exceptions, levied upon every succession, i.e. every beneficial acquisition of real and personal property by any person by reason of any disposition or devolution by law (*Succession Duty Act*, 1853). Leaseholds are accounted part of the real estate for this purpose. The scale of duty is the same as for legacies and similarly increases in incidence with the remoteness of the successor from the predecessor. This duty is not payable where the value of all successions does not exceed £100, or where the estate, real and personal, in respect of which Estate Duty is payable does not exceed £1,000.

The duty is payable by the successor. No one chargeable with Legacy Duty is chargeable also with Succession Duty in respect of the same property.

CAPITAL AND INCOME.

The terms Capital and Income are well understood by the student in their ordinary commercial sense, but in dealing with executorship accounts it is not always easy to decide whether a particular item should be treated as Capital or Income. It is impossible to lay down any fixed rules, and, in case of doubt, an executor will be well advised to treat payments as Income and receipts as Capital.

When an investment is sold the *Apportionment Act* does not apply, and the whole of the proceeds of the sale must be treated as Capital. When executors invest estate moneys, the whole of the first dividend received must be treated as Income. It will be noted that these rough-and-ready rules are not in harmony with commercial practice, and in order that the respective rights of the tenant-for-life and remainderman may be duly protected, care is needed in the selection of new investments when changes are made. It should be borne in mind that if investments are purchased *cum div.* the whole of the dividend goes to the tenant-for-life, whereas if sold *cum div.* the entire proceeds are Capital, and the tenant-for-life loses the accrued Income. Some few items of common occurrence in executorship may be analysed for the student's guidance :—

Capital Items.—Estate, Legacy, and Succession Duty on legacies directed by the will to be paid "free of duty"; cost of proving the will and protecting the estate; and executorship expenses in valuing, realising or re-investing or protecting the assets, including stockbroker's and valuer's fees for valuations, and accountant's charges for services in preparing accounts, etc.; appointment of new trustees; funeral expenses; profits or losses on the realisation of assets; legacies; annuities purchased; debts due at death; income accrued due prior to the date of death; expenditure of a permanent nature; and the cost of structural alterations undertaken to improve the property.

Income Items.—Interest on a loan from the Bank to enable duty to be paid; interest on Estate Duty on personal estate; interest on specific legacies; income accrued due after the date of death; expenses of letting and managing property and the necessary ordinary repairs of a decorative nature, audit fees, etc.

Apportionment.—This is the term used to indicate the division by the legal representative of the income derived from a testator's estate into proportionate parts for the purpose of adjusting the legal rights of those entitled thereto. The divisions are (*a*) "Income accrued due prior to the date of death," and (*b*) "Income accrued due after the date of death." The former becomes part

of the *Capital* or *Corpus* of the estate, and must be included in the Estate Duty Account for duty purposes; and the latter forms part of the *Income* of the estate.

Illustration.—A testator died on January 31st and left, amongst other assets, a mortgage of £10,000 at 5 %. The interest was payable quarterly, and on March 31st three months' interest, less tax, was paid, amounting to, say, £93 15s. 0d net. The interest accrued up to the date of death (January 31st), i.e. 31 days, is Capital, the remainder, i.e. 59 days, is Income:—

	£	s.	d.
Capital.—December 31st to January 31st = 31 days, 31/90ths of £93 15s. 0d. .. .. .. =	32	5	10
Income.—January 31st to March 31st = 59 days, 59/90ths of £93 15s. 0d. .. .. .. =	61	9	2
	£93	15	0

There are three main reasons why it is necessary to apportion income, viz. (1) in order to arrive at the actual net value of the estate on which Estate Duty is payable; (2) to adjust the rights of the life tenant and remainderman as regards income accruing after the testator's death; and (3) to allocate the administration expenses properly as between capital and income. The need for strict apportionment arises more particularly in cases where a portion of the estate is left on trust. For instance, a testator leaves the whole of his estate to his wife—the "life tenant," and upon her death to his son absolutely—the "remainderman." The widow is interested solely in the income, the capital going to the son. In such cases, apportionment needs careful adjustment. Where securities are valued *cum div.* at date of death, no further amount need be accounted for in the Estate Duty Account, since it is assumed, for Estate Duty purposes, that the accruing dividend has been included in the market quotation. When stocks are valued *ex div.* at date of death, the whole dividend next receivable must be included in the Estate Duty Account as capital and Estate Duty be paid thereon. When the dividend is actually paid, it must, however, be apportioned, in respect of time, in the Cash Book in the usual way

For apportionment purposes interim dividends are treated as payments on account of dividend for the whole year. When the final dividend has been received, and the rate of dividend for the whole year ascertained, an apportionment is made on this basis, taking into account the interim dividends which came in prior to the date of death and were treated as capital for assessing Estate Duty. The interim dividend received prior to the date of death should be deducted from the capital proportion of the dividend for the whole year.

Illustration.—A testator leaves, among other assets, 2,000 Ordinary Shares of £1 each in a mining company, upon which an interim dividend at the rate of 10 % per annum had been paid on June 30th. The date of death was September 30th A final dividend at the rate of 20 % per annum was paid as on December 31st. Ignoring Income Tax, the apportionment would be as follows :—

	£	s	d
Dividend for the whole year (Interim £100, and Final £200)	300	0	0
Proportion of the whole dividend to the date of death, September 30th, i.e. nine months	225	0	0
Less Interim Dividend received by Testator	100	0	0
Proportion of the Final Dividend to be carried to Capital Account	125	0	0
Proportion of Final Dividend to be treated as Income (i.e. three months or 3/12ths of £300)	75	0	0
	£200	0	0

In no case, however, can the tenant-for-life claim more than the amount of the final dividend.

Similar questions may arise on the death of the tenant-for-life His estate is entitled to dividends accrued during his life, though not declared until afterwards. So, where the tenant-for-life died on July 24th, and during September dividends were declared for the period ending June 30th, the whole of the dividends went to the tenant-for-life's estate (*re Muirhead*, [1916] 2 Ch. 181).

Statutory apportionments are governed by the *Apportionment Act*, 1870. There are also certain equitable rules which govern apportionments, notably the decisions in *Howe* v. *Earl of Dartmouth* (1802), 7 Ves. 137, *re Earl of Chesterfield's Trusts* (1883), 24 Ch. D. 643; and *Allhusen* v. *Whittell* (1867), 4 Eq. 295.

By the *Apportionment Act*, 1870, " all rents, annuities, dividends, and other periodical payments in the nature of income (whether reserved or made payable under an instrument in writing or otherwise) shall, like interest on money lent, be considered as accruing from day to day, and shall be apportionable in respect of time accordingly "

In *Howe* v. *Earl of Dartmouth* (1802) the general rule was laid down that where the residue of personal property is left in trust for several persons in succession, and the residue consists wholly, or in part, of property of unauthorised, wasting or reversionary nature, and the will contains no directions to the contrary, such assets must be realised and properly invested in authorised securities. In such cases the conversion of the property should be effected within twelve months from the date of death The tenant-for-life is entitled to interest at the rate of 4 % (formerly 3 %) per annum upon the net proceeds of the realisation from the date of death to the date of reinvestment. If it is impossible to realise the property within the executor's year without incurring heavy loss, the tenant-for-life is entitled to interest at 4 % (formerly 3 %) upon the value of the property as at the testator's death. The object of this rule is to protect remaindermen, but it does not apply to real estate, and does not, of course, operate in cases where the intention of the testator, as shown by his will, was that the tenant-for-life should enjoy the property in the same state as existing at the date of death.

The apportionment rules do not apply to leasehold property (re *Brooker* [1926], 70 S.J. 526), but, in the absence of contrary directions in the will, it is still the duty of the executor to realise

such property and invest the proceeds in Trustee Investments; pending such realisation the income belongs to the life tenant.

Illustration —A testator who died on April 1, 19. , left the residue of his personal estate in trust for the benefit of his son for life, the capital to pass to his grandson on the death of his son. The residue included 2,000 6 % £1 Preference Shares in Blanks, Ltd., valued at 17s 9d –18s 9d for Estate Duty purposes Under the rule in *Howe* v *Earl of Dartmouth*, the shares were sold on September 30, 19.., the proceeds being £2,100 *ex div.* On the following day the half-year's dividend to September 30, 19 , was received Prepare the ledger account of the leasehold property, making the necessary apportionments in months and ignoring income tax (see p 998).

On the conclusion of the sale, the executor must invest the proceeds, together with the income received (less the interest paid to the life tenant and income tax paid), in authorised securities, the income from which goes thereafter to the tenant-for-life.

Re Earl of Chesterfield's Trusts (1883), 24 C.D. 643.—The rule in this case is applicable where the residue, or part of the residue, consists of a reversionary interest, or similar outstanding personal estate. When such property falls into the estate, it is necessary to ascertain the amount which, if it had been invested at the date of the testator's death at 4 % (formerly 3 %) per annum compound interest (less income tax) with yearly rests, would have produced, at the date when the property fell in, an amount equal to the actual amount realised by such property The amount ascertained in this way is capital, and the balance, i.e. the difference between such sum and the amount realised by the property, is income. For example, assume that a testator leaves a reversionary interest in certain shares. When the shares fall into the estate their market value amounts to £3,000. Assume that a sum of £2,796, if it had been invested at the date of death at 4 % compound interest with yearly rests, and after deducting income tax, would have produced £204 at the date when the reversion fell in, or £3,000 in all, then £2,796 represents capital and £204 income.

Allhusen v. *Whittell* (1867), 4 Eq. 295—It is the almost invariable practice to charge such items as funeral and testamentary expenses, debts, legacies, and the like wholly against capital. Where, however, the residue, after payment of debts, etc., is left to several persons in succession, this practice is contrary to the rule laid down in the above case. The rule is that in the absence of contrary provisions in the will the executors will be taken by the Court as having applied in payment of debts, etc., such a portion of the residue as, together with the income of that portion for one year, was necessary for such payments. In other words, it is held that all debts and expenses should be borne rateably by capital and the first year's income, on the ground that the first year's income would otherwise be increased by the interest on the money retained to pay the debts. In cases where considerable payments are made less than a year after the testator's death, the above rule has been modified by the decision *in re McEuen*, [1913] 2 Ch. 704. Each separate payment for debts, etc., is now taken as having been made with such a portion of capital as, together with the income derived from it from the testator's death to the date of the payment—instead of for the full year—is sufficient to satisfy

(Ledger Account)

6% £1 PREFERENCE SHARES, BLANKS, LTD.

Date.	Particulars.	Folio.	Nominal Amount. £	s.	d	Income. £	s	d.	Capital £	s.	d
19 April 1	To Estate Account, 2,000 Shares valued at 18s. each as per Estate Duty Account .	J.	2,000	0	0				1,800	0	0
Oct. 1	,, Income, being 4 % per annum on £2,100 (proceeds of sale) from the date of death, April 1, 19.., to date of sale, Sept. 30, 19.., say six months . ..	J									
	,, Income Account	J.				42	0	0	42	0	0
	,, Estate Account, profit transferred ..	J.							318	0	0
		£	2,000	0	0	42	0	0	2,160	0	0

Date	Particulars.	Folio	Nominal Amount £	s	d	Income. £	s.	d.	Capital. £	s	d
19.. Sept 30	By Cash, proceeds of Sale of 2,000 shares ..	C.B.	2,000	0	0				2,100	0	0
Oct. 1	,, Cash, Dividend for half year, to Sept. 30 ..	C.B							60	0	0
,,	,, Capital, as per contra	J				42	0	0			
		£	2,000	0	0	42	0	0	2,160	0	0

the payment. The equitable principle remains the same, viz. that a tenant-for-life is only entitled, during the first year, to the income derived from the amount which will ultimately be available for the remainderman The rule in *Allhusen* v. *Whittell* is not to be slavishly followed, and should not be applied in cases where large sums are paid considerably before the end of the executor's year.

The above case was followed in *re Wills, Wills* v. *Hamilton*, [1915] 1 Ch. 769. In that case there were very large payments and appropriations for duties, debts, testamentary expenses, legacies and annuities, which were not completed until five years after the testator's death. The rate of interest earned by the estate increased considerably after the first year. It was held that the process of calculation (of such a sum as with the interest would discharge the liabilities) ought to be continued after the first year and be applied to the liabilities discharged after that year, and further that income ought to be calculated upon the average rate earned in each year. In calculations of sums required to pay annuities the same principle was adopted by Swinfen Eady, J, in *re Perkins*, [1907] 2 Ch. 596, interest being calculated at 3 % (because the residue was invested in Consols, but the Judge said that 4 % would otherwise be the proper rate), and by Joyce, J., in *re Thompson W.N.*, [1908] 195, and Parker, J., in *re Poyser*, [1910] 2 Ch 444, the interest in the two latter cases being calculated at $3\frac{1}{2}$ %. The rule may now be considered to be well settled. In applying the rule, the income of the Estate is to be calculated on the net amount after the payment of income tax (*re Oldham, Oldham* v. *Myles*, [1927] W N 113).

Testamentary Expenses.—These are expenses necessarily incurred in obtaining Probate or Letters of Administration, including Government Estate Duty, and expenses incurred in protecting the estate. Such expenses are a charge against Capital and are legally payable next after the funeral expenses. The term is not etymologically correct, since an administrator's expenses are "testamentary," although there is no "testament."

Funeral Expenses.—All expenses properly incurred in the burial of the testator may be deducted from the gross value of the estate for the purpose of ascertaining the amount of duty payable. The cost of mourning and the erection of a tombstone must not be included. Any expenses incurred in bringing the testator's body from abroad are disallowed. The amount of funeral expenses must be reasonable having regard to deceased's position and property.

Debts Due at Death.—The executor should pay the debts owing by the testator with reasonable expedition when assets come into his possession. He may pay himself in priority to all other creditors of equal degree if any debt is owing to him, or he may give preference to any other creditor of equal degree. He may pay debts which are barred by the Statute of Limitations, but not after the debts have been judicially held to be so barred. The order in which debts are paid is immaterial in cases where the estate is solvent, but the following order of payment should be observed, if there is any doubt as to the sufficiency of the assets to meet all the liabilities.

(1) Reasonable funeral expenses; cost of obtaining probate and other testamentary and executorship expenses.

(2) Crown debts due by specialty or record

(3) Debts with statutory priority, such as Poor Rates, Regimental Debts, or moneys due from Savings Banks' or Friendly Societies' officers to the Society.

If the estate is being administered in or out of Court as the estate of a deceased insolvent, the funeral, testamentary and administrative expenses have priority, subject thereto, the same rules prevail as to the rights of secured, preferential and other creditors, etc, as are in force in bankruptcy (*Administration of Estates Act*, S. 34 and Pt. I, *Sch.* I, S. 130, *Bankruptcy Act*, 1914, and *Expiring Laws Act*, 1925).

(4) Judgments of a Court of Record recovered against the testator and decrees of a Court of Equity.

(5) Other debts of record, such as recognisances duly enrolled, etc.

(6) Debts for which judgment has been obtained against the executor

(7) Ordinary debts, on contract, under seal, or otherwise.

[*Note.*—Specialty and simple contract debts were placed on an equal footing by *Hinde Palmer's Act*, 1869. An executor can still prefer a simple contract debt over a debt by specialty, and can retain for a simple contract against specialty creditors (*re Samson*, [1906] 2 Ch. 584; *re Harris*, [1914] 2 Ch. 395)]

(8) Voluntary bonds, such as a covenant given without consideration to pay a certain sum of money; but creditors under these rank *pari passu* with creditors for value in the administration of the estates of deceased insolvents (*re Whitaker*, [1901] 1 Ch. 9).

Marshalling the Assets.—The assets should be applied in payment of funeral and testamentary expenses and debts in the following order:—

(1) Property of the deceased undisposed of by will, subject to the retention thereout of a fund sufficient to meet any pecuniary legacies.

(2) Property of the deceased not specifically devised or bequeathed, but included (either by a specific or general description) in a residuary gift, subject to the retention thereout of a fund sufficient to meet any pecuniary legacies so far as not provided for as aforesaid.

(3) Property of the deceased specifically appropriated or devised or bequeathed for the payment of debts.

(4) Property of the deceased charged with or devised or bequeathed subject to a charge for the payment of debts.

(5) The fund, if any, retained to meet pecuniary legacies.

(6) Property specifically devised or bequeathed rateably, according to value

(7) Property appointed by will under a general power, including the statutory power to dispose of entailed interests, rateably according to value.

The expression "marshalling the assets" is still used, though the process is no longer necessary in favour of creditors. The principle of equity is that where a claimant A has two funds to which he may resort for his claim, and another claimant B has an interest in only one of those funds, A cannot resort to B's fund until he has first exhausted that fund in which B has no interest. If he has resorted to B's fund first and so disappointed B, then the Court will allow B to stand in A's shoes and have recourse to the other fund in which B had originally no interest, so as to satisfy B's claim.

Residuary Account.—The term "residuary legatee" is explained at p. 987. In order to determine the precise interest of the residuary legatee, an account in the official form, termed a Residuary Account, must be prepared and filed at Somerset House, giving a summary of the administration of the estate and showing the amount of the residue (if any) of the testator's personal estate. From this account the Legacy Duty payable by the residuary legatee is assessed. The whole of the estate must be brought into the account, showing the assets at the amounts realised, the income received subsequent to the testator's death, and the payments made, together with a valuation, at market prices, of the unrealised portion of the estate, if any, and any sums reserved to meet unpaid legacies or liabilities. Legacy Duty is charged upon the net amount of the residue shown by the account and is payable upon distribution. If there is a life tenant, unless the life tenant and remainderman are liable to the same rate of duty, two Residuary Accounts are necessary, the second being deferred till after the death of the life tenant. The first of these accounts deals with capital items only (see p. 1028).

Judicial Trustee.—The *Judicial Trustees Act*, 1896, gave the Court power to appoint a Judicial Trustee, who may be the sole trustee or act jointly with any other person, or may be substituted for existing trustees. An executor or administrator is a trustee within the meaning of the Act, so that a Judicial Trustee may in effect be appointed to act with or displace an executor or administrator. The Court may allow the Judicial Trustee to be remunerated, and he must give security. The Judicial Trustee, in case of difficulty arising in the administration of the trust, may apply to the Judge without formal application for directions, though in substantial cases the Court will probably direct a summons to be issued. A most important part of the Act is the direction that once in every year the accounts of the Judicial Trustee shall be audited. This is done by the Masters in Chancery. The Act is not generally known or largely used. By S. 3 of the same Act trustees, including executors and administrators, whether appointed under the Act or not, are relieved from the consequences of a breach of trust if they have acted honestly and reasonably and ought fairly to be excused.

Executorship Accounts

Apart from the legal considerations that enter into executorship book-keeping, there is not that intricacy about it which many students appear to imagine. The ordinary principles of double-

entry book-keeping apply. The chief difficulties in their application lie in the accurate discrimination between capital and income, and the proper apportionments rendered necessary by statute or case law.

Two Systems of Accounting.—There are two recognised systems of keeping executorship accounts, viz. (*a*) the "two column" method, and (*b*) the "Cash" or "three column" method. The difference between them lies in the basis upon which the assets are recorded when the estate books are opened In the end both systems achieve the same result.

The "Two Column" Method.—By this method the valuations made for Estate Duty purposes are immediately employed for the compilation of the estate Capital, or Corpus, Account. The estate Capital Account is credited, by means of a Journal entry, with the aggregate value of the assets as shown in the Affidavit for probate, and each asset account is debited with its individual value Any profits or losses which may subsequently arise upon the realisation of the assets are adjusted by means of a "Profit and Loss upon Realisation Account," or, more frequently in practice, by Journal entries transferring the profit or loss direct from the asset account to the Estate Capital Account. This method has the advantage of obviating the possibility of any asset being overlooked, and it also shows the aggregate value of the estate upon which duty has been paid. Under this system the Ledger account of each asset consists of two cash columns, for "income" and "capital" items respectively. In practice, a third "memorandum" column added to the debit side is a convenience for recording the nominal value of the investment

In order to economise space, this third column has been omitted in the long exercise which concludes this chapter.

Illustration.—A testator, who died on November 30, 19... left £1,000 Arcadia Government 5 % Gold Bonds. Interest payable June 30th and December 31st. This asset was valued at 90 for probate purposes, and was sold on December 31, 19.., at par. Ignore expenses of selling the investment.

The ledger account would appear as shown on p. 1003

The "Cash" or "Three Column" Method.—By this method no assets are passed to the credit of the Estate Account until they have been actually realised or otherwise dealt with The adherents of this method maintain that the values placed upon the testator's assets are subject to fluctuation, and that the executors are not responsible for them until they realise them, and that, for legal considerations, it is unwise to adopt the probate valuations, except as memoranda. Some lawyers hold the opinion that, from an executor's point of view, it is unwise to record values in the books which may never be realised. It is also claimed that it is an advantage to show on the face of the accounts the proportions of realised and unrealised assets. Under this system the Estate Account shows only so much of the estate as has been actually realised at the date of the account.

There can be no question that the "Cash" system is the older of the two, and is still largely favoured by solicitors. The "two

(See p. 1002)

(Ledger Account, "Two Column" System)

ARCADIA GOVERNMENT 5% GOLD BONDS.

DR. *Particulars*. Five Bonds of £200 each, Nos. 571, 572, 573, 574, 575. *Interest Payable*: June 30th and December 31st. CR.

Date	Particulars.	Folio	Income £ s. d.	Capital £ s. d.	Date	Particulars	Folio	Income. £ s. d.	Capital £ s. d.
19 Nov 30	To Estate Account, £1,000 Stock valued at 90 for Estate Duty Account .	J 2		900 0 0	19 Dec 31	By Cash, Interest on £1,000 Stock for half-year to December 31, 19 , £25 *less* tax at 4s. 6d, £5 12s 6d = £19 7s 6d			
Dec 31	,, Income Account, being income to date of sale	L 2	3 5 3			Capital, 153 days	C B 2		16 2 3
,, 31	,, Estate Account, being profit on realisation	L 6		116 2 3		Income, 31 days		3 5 3	
					,, 31	,, Cash, Proceeds sale of £1,000 Stock at par	2		1,000 0 0
		£	3 5 3	1,016 2 3			£	3 5 3	1,016 2 3

NOTE — In practice a third "memorandum" column is sometimes inserted on the Dr side to record the nominal amount of the investment—in this case £1,000 Cf p 998.

(Ledger Account, "Cash" or "Three Column" System.)

ARCADIA GOVERNMENT 5% GOLD BONDS.

DR. *Particulars* · Five Bonds of £200 each, Nos. 571, 572, 573, 574, 575. *Interest Payable* June 30th and December 31st. CR.

Date	Particulars.	Folio	Estimated Value for Probate £ s d.	Income £ s d.	Capital £ s. d.	Date.	Particulars	Folio.	Income. £ s d.	Capital £ s d.
19 Nov. 30	To £1,000 Stock valued at 90 as per Estate Duty Account		900 0 0			19 Dec 31	By Cash, Interest on £1,000 Stock for half-year to December 31, 19 , £25 *less* tax at 4s 6d, £5 12s 6d = £19 7s 6d			
Dec. 31	,, Income Account, being Income to date of realisation	L. 2		3 5 3			Capital, 153 days	C.B 2		16 2 3
,, 31	,, Estate Capital Account, being capital realised on sale of investment	L 6			1,016 2 3		Income, 31 days		3 5 3	
						,, 31	,, Cash, Proceeds sale of £1,000 Stock at par	2		1,000 0 0
			£	3 5 3	1,016 2 3			£	3 5 3	1,016 2 3

NOTE — Sometimes the valuation of the investment is noted "short" on the debit side, in which case, only two cash columns are employed

column" system is, however, more scientific from the double-entry book-keeper's point of view, and is the method chiefly employed by professional accountants, and is the principle upon which the illustrations in this treatise have been prepared. The author may state, however, that he found the employment of the "Cash" system convenient in a case where the greater portion of the assets consisted of property and securities upon which it was practically impossible to place any but very tentative valuations, probate being granted upon the understanding that the approximate valuations appearing on the Estate Duty Account should be adjusted in the Corrective Affidavit. As stated above, however, the student should clearly understand that both systems have their advocates, and accounts opened upon either basis, if accurately prepared, disclose the same results.

The Books of Account.

Nature of Records.—It is imperatively important that an executor should keep accurate books. He is under strict liability to render a full account of his stewardship to those for whose benefit he administers the testator's estate.

The interests derived under a will are diverse, and sometimes conflicting. For example, a testator may devise a life interest only in certain property to A, the property itself passing ultimately to B. In such cases the differing interests of the tenant-for-life and the remainderman must be adjusted in order that one party may not benefit at the expense of the other.

An executor's books must contain (1) full particulars of all the property which came into his hands as executor; (2) a complete record of all his dealings with reference to such property during his executorship, and (3) details of the final disposal of the proceeds of the estate.

Books to be Kept.—Taking the example set out at p. 1010, we find (1) particulars of the property which came into the possession of the executor as shown in the Affidavit for Probate, and which is summarised at p. 1014; and (2) the subsequent transactions, as set out in the "Diary" given at pp. 1011–13, which remain to be suitably recorded For this purpose three books are necessary, viz. *Journal, Cash Book,* and *Ledger*. In addition to these, it is the author's opinion that executors will be wise if they keep certain subsidiary books, e.g. a *Minute Book*, particularly perhaps in cases where there is more than one executor. All proceedings and decisions arrived at by the executors should be there recorded, and signed by all executors present, so that an authentic record of the conduct of the executorship may be available in case of need. This is specially necessary if some of the beneficiaries are likely to prove troublesome Where the estate is large and trusts will remain after the close of the executorship, it is advisable to open an *Investment Register*, containing the usual records of every investment. A *Rents Book* is also necessary where the estate includes considerable realty or leaseholds.

A suitable form for an Investments Ledger is shown at p. 1005. The balances of the Income columns would be transferred, in

ILLYRIAN GOVERNMENT 4 % STERLING LOAN OF 19..

Dividends payable June 30th, December 31st. Principal repayable 19.., or at par after January 1, 19..

DR

Date	Particulars.	Folio	Nominal Amount. £	s	d	Income. £	s.	d	Capital £	s.	d.
1929 Sept 30	To Cost at 84 plus brokerage and stamps, of ten £100 Bonds Nos. XY 324610/324619.	C.B	1,000	0	0				844	14	0
Dec 31	,, Transfer to Income Account . .	J				16	0	0			
		£	1,000	0	0	16	0	0	844	14	0
1930 Jan. 1	To Balance brought down	√	1,000	0	0				844	14	0
Dec 30	,, Transfer to Income Account . . .	J				31	0	0			
		£	1,000	0	0	31	0	0	844	14	0
1931. Jan. 1	To Balance brought down	√	1,000	0	0				844	14	0
Mar 31	,, Transfer to Capital Account, being Capital Profit on Sale of Investment	J.							65	9	6
		£	1,000	0	0				910	3	6

CR

Date	Particulars	Folio	Nominal Amount. £	s.	d	Income £	s	d.	Capital. £	s.	d.
1929. Dec 31	By Six months' interest at 4 % per annum, £20, *less* Income Tax at 4s. in £ . ..	C B				16	0	0			
,, 31	,, Balance carried down	√	1,000	0	0				844	14	0
		£	1,000	0	0	16	0	0	844	14	0
1930 June 30	By Six months' interest at 4 % per annum, *less* Income Tax at 4s 6d. in £	C B				15	10	0			
Dec 31	,, Six months' interest at 4 % per annum, *less* Income Tax at 4s 6d. in £ .. .	C B				15	10	0			
,, 31	,, Balance carried down	√	1,000	0	0				844	14	0
		£	1,000	0	0	31	0	0	844	14	0
1931 Mar. 31	By Proceeds of Bonds sold for £910 3s 6d net (at 91¼ % *less* charges)	C B	1,000	0	0				910	3	6
		£	1,000	0	0				910	3	6

due course, to the Income Account. Any profits or losses on the realisation of investment would, in the case of executors' accounts, be dealt with in the Estate Capital Account.

A form of Rents Ledger appears at p. 1007. This ruling is suitable where there are a number of small properties. Each page should be ruled to accommodate two or more ledger accounts It is convenient if the "Rent" column is ruled in red and the "Cash" column in blue ink. The debits for rents due originate from a Journal entry debiting individual tenants and crediting Rents Due Account with the periodical rents as they fall due.

A second form of Rents Ledger is illustrated at p. 1007. This is suitable for employment in cases where an account showing the profit or loss on each individual property is desired This can be kept as a "Memorandum" Ledger only, or the balances can be collected and credited to a Property Profit and Loss Account.

The Journal.—In the record of executorship transactions, more particularly when the "two column" system is employed, the Journal should, in the author's opinion, be more fully employed than in ordinary commercial work. Indeed, where securities or other assets are divided *in kind* amongst the beneficiaries, full Journal entries are essential. If the "Cash" system is employed, the need for the Journal is not, perhaps, very obvious. For ready reference, it will also be found useful to record in the Journal a synopsis of the will, in so far as it affects the accounts. Full explanations of all entries in the Journal should appear by way of "narrative." Following the epitome of the will, the first entry in the Journal under the "two column" system will be the opening entry for the Estate Ledger, i.e "*Sundries* (*or* '*Sundry Assets*') *Dr. to Estate Account*," with the narration, "*Being the assets comprising the testator's estate as per Estate Duty Account.*" By means of this entry the individual asset accounts are opened The aggregate of the various debits makes up the gross total of the "Capital" or "Corpus" of the estate This entry is based upon the Affidavit for probate, and is the starting-point of the responsibility of the executors. An example of a Journal entry of this kind appears on pp. 1015–17

Other necessary Journal entries are those made to adjust profits and losses upon the realisation of the investments; the debit to the Estate Account of the debts due at death, the transfer of specific legacies; the division of assets *in kind*, apportionments of income accrued to date of death; the transfer of balances and the closing entries; and any special items which cannot be suitably passed into the books through any other channel.

Some practitioners confine the Journal entries to those recording the opening of the books. In the author's opinion, however, a fuller use of the Journal, as explained above, is advisable in executorship accounts.

Cash Book.—It is essential that executors should keep a separate banking account for the estate, that all moneys received should

RENT LEDGER.

(For small properties.)

303

Property ....
Tenant ....
Commencement of tenancy ......
Rent............per ....
Other Charges...................

Terminated ....
Payable.. ....

DR.

			Rent.			Cash.		
			£	s	d	£	s.	d.
19.. June 25 July 18	To Rent .. . .. By Cash	R S. 3	2	0	0	 2	 0	 0

304

Property ....
Tenant ... ...
Commencement of tenancy .....
Rent... ... . per ... .
Other Charges . ...

Terminated .. . .
Payable . . ..

CR.

			Rent			Cash.		
			£	s	d	£	s.	d

RENT LEDGER.

(When it is desired to ascertain profit or loss on each property.)

Name of Property .. ..
Tenant .... Commencement of Tenancy .... Rent Payable . ... Dates Payable.... ....

DR. CR.

Date.	Particulars of Charge.	Folio	Rent			Rates and Taxes			Insurance.			Com-mission			Repairs and De-preciation			Total			Date	Particulars	Folio.	Amount		
			£	s.	d	£	s	d	£	s	d	£	s.	d	£	s	d.	£	s	d				£	s	d.

be paid direct to such account, and that all payments should be made by cheque only. It is usual to provide three columns, for "Income," "Capital," and "Bank" respectively Each item is analysed in the two inner columns as between Capital and Income, and is then extended, in total, into the Bank column. By this method the division of the balance in hand, as between Capital and Income, is readily ascertainable at any time. The advantage thus obtained applies more particularly where there is a life interest in the estate necessitating careful distinction as between Capital and Income. The fullest detail relative to every entry in the Cash Book should be recorded. The opening entry will consist of the cash in the house at the date of death. The exact sum found in the house, and scheduled in the Estate Duty Account, should be paid into the Bank, and if any payments have been made a cheque should be drawn for the amount of such expenses. In due course the amount standing to the credit of the testator's current account will be transferred to the executor's account and duly recorded in the Cash Book. An example of a suitable Cash Book ruling will be found at pp. 1018–19. If there are a number of petty cash payments, a cheque should be drawn periodically for the purpose, and a Petty Cash Book be opened in the usual way. All dividend counterparts, brokers' bought and sold notes, vouchers for payments, and any other documents necessary to verify the entries in the estate books should be filed and numbered, and the numbers recorded against the respective items in the Cash Book for ready reference.

If there are several executors the signatures of all executors must be furnished to the bankers when the banking account is opened, and it is advisable to arrange that all cheques must be signed by two or more executors. Any one executor can endorse cheques made payable to "The Executors of ....," the endorsement being, for example :—

"*Robert Robinson,*
for self and co-executors of ...."

The Ledger is provided with "Capital" and "Income" columns, and, as has been already explained, a third column is sometimes added in practice, in the case of investment accounts, for memoranda of the nominal amount of the investments. Where economy of space is desired, the nominal holding in each investment can be included in the heading of the ledger account in order that the balance of stock held at any time can be easily seen. Whether extended use of the Journal is favoured or not, there can be no question that full particulars of all items should appear in the Ledger, in order that each account may be self-explanatory. The temptation to curtail ledger entries because full details have been set out in other books must be rigorously resisted.

The first account appearing in the Ledger is usually the "Estate ('Corpus' or 'Capital') Account," which takes the place of the Capital Account of the commercial world, and, as has been

explained, is opened by the Journal entry which records the assets as valued for Estate Duty Account purposes, and the liabilities and expenses allowable thereout. It is usual to close the account at this stage, and to bring down the balance showing the amount upon which Estate Duty has been paid When the provisions of the will have been carried out, the balance of the account represents the residue of the estate. The Estate Account will ultimately be closed by the transfer of this balance to the credit of the accounts of the residuary legatees

As shown in the accompanying illustration, a separate ledger account must be opened for every investment The profit or loss upon realisation of such investments as are disposed of must be transferred to the Estate Account.

The "Testamentary Expenses Account" should contain only such expenses as are chargeable against Capital, the "Executorship Expenses Account" containing those chargeable against Income. The balances of these two accounts are transferred, in due course, to the "Estate" and "Income" Accounts respectively. An account must be opened for "Debts due at Death," to which the liabilities deducted in the Estate Duty Account are credited The payments in discharge of these debts are posted to the debit of the account as and when made. A "Legacies Account" must also be opened, to which all the pecuniary legacies, and the duty thereon, are debited as and when paid. Specific legacies (and the duty thereon if bequeathed "free of duty") are transferred from the individual ledger accounts to the Legacies Account, and, when all legacy transactions are complete, the balance of the account is transferred to the debit of the Estate Account.

The Income appearing in the "income" columns of the asset accounts is transferred to an "Income Account" in the Ledger, and the account is debited with the executorship and other current expenses. When complete, the balance of this account should agree with the relative columns in the Cash Book, and shows the income available for the tenant-for-life, to the credit of whose account the amount should be transferred.

It is thought that the other ledger accounts, as shown in the example given at the close of this chapter, are self-explanatory.

Business Books.—In cases where the executors are carrying on the testator's business in accordance with the directions contained in the will, separate books relating to the trading transactions must, of course, be kept in the usual form. If the testator was a partner in a firm, there is no need to include in the Estate Duty Account any details of the partnership assets The only information necessary is the figure which represents the testator's share in the partnership property.

Summary of Rules.—If the student will carefully follow each transaction from the Diary (pp. 1011–13) in its progress through the various books, and in conjunction with the legal explanations given above, it is thought that little further explanation of executorship book-keeping is necessary. It may, however, be useful to emphasise the following points :—

(*a*) All Income received after the testator's death has been duly apportioned as between Capital and Income.

(*b*) Legacy Duty has been deducted from the various legacies, except in those cases where they were bequeathed "free of duty."

(*c*) The method in which the amount liable to Estate Duty has been arrived at should be carefully followed, the amount being calculated upon the total assets, as per the various valuations, *less* all such liabilities as are authorised as deductions.

(*d*) Throughout the exercise more than usual detail has been given. This may perhaps be regarded by some as unnecessary repetition, but experience shows that it is useful to repeat full narrative in the ledger accounts in executorship books. Litigation may arise, and the books may be called for in the witness-box; or they may be open to inspection by hostile beneficiaries or their professional representatives, and upon these and other occasions the immediate availability of full detail is frequently very advantageous.

When submitting periodical accounts to the beneficiaries, it is a wise precaution to obtain signatures from all interested on the face of the accounts.

When a division of residue is taking place, beneficiaries may elect to take a transfer of existing investments in discharge of part, or the whole, of the share of the estate to which they are entitled. In such cases a certificate should be obtained from the stockbrokers, stating the mean market price of the securities as on the day of the division. A Journal entry is then passed through the books upon the basis of this valuation.

Illustration.

EPITOME OF THE WILL OF ROBERT ENDIVE.

Late of 368 Reter Road, London, W. The Will bears date October 6, 1918, and appoints George Ramshaw and William Endive (brother) as Executors.

(1) £250 each to the Executors, if they act.

(2) The £1,000 Stock in Illyria Harbour Trust to Edith Williams (niece), together with all income derived therefrom from date of death, all free of duty.

(3) £100 to Mary Reeves (servant) and £50 to George Reimers (servant).

(4) All Household Effects to wife, Hilda Endive, free of duty.

(5) Freehold House to wife, free of all death duties and mortgage.

(6) £1,000 to Middlesex Hospital, free of duty.

(7) Residue of Estate to wife.

(8) The income of the Estate during the Executorship was to be divided as to two-thirds to the wife (Hilda Endive) and as to one-third to the niece (Edith Williams).

(9) The Executors are instructed to pay off the Mortgage on the Testator's freehold house.

The Testator died March 31, 1930
The Will was proved on May 9, 1930.
The Estate was sworn at £34,435 19s. 10d.
The Testator's assets and liabilities were as follows :—

	£	s.	d.
Cash in house	12	10	0
Cash at National Provincial Bank, Ltd. ..	1,240	0	0

The Household Furniture and Effects were valued at £1,050.
The debts owing by the Testator at the date of death were :—

	£	s.	d.
J. Schofield (tailor)	25	0	0
R. Reeves (solicitor)	12	12	0
George Johnson (grocer)	10	0	0
Dr. Forbes	16	5	6

The Freehold House was valued at £3,500. There was a Mortgage thereon of £1,000 at 5 % (mortgagee, Geo. Jones; interest due June 30th and December 31st). The Funeral Expenses amounted to £45.

Investments :—

£8,000 Local Loans Stock, valued at 60 *ex div.* Dividends payable January 5th, April 5th, July 5th, October 5th

£4,000 5 % War Loan, valued at 102. Dividends payable June 1st and December 1st

£9,500 London County Council 3½ % Stock, valued at 74 *ex div.* Dividends payable January 5th, April 5th, July 5th, October 5th.

£4,000 Canadian Pacific Railway 4 % Consolidated Debenture Stock at 80.

£3,750 London, Midland & Scottish Railway 4 % Guaranteed Stock, valued at 78.

£1,000 Illyria Harbour Trust 6 % Bonds, valued at par.

£5,000 Loan on Mortgage at 5 % to Jonas Smithers.

£550 Loans due to deceased from: J. Ronar, £100 (free of interest); R. Barnes, £450 (at 5 % interest).

Life Policy, £1,000 (Northern Assurance Company, Ltd., No. 96421).

The Estate Duty exclusive of interest amounted to £3,787 19s. 2d.

For the purposes of this Example, it is assumed that interest and dividends on all the investments, loans, etc., held by the deceased are due half-yearly on June 30th and December 31st, except where stated otherwise.

DIARY OF EVENTS.

1930. *April 6th.*—Paid into Bank Quarter's Interest received on Local Loans and London County Council Stocks.

The Executors instructed their solicitors, Messrs. Deed & Co., to prepare the necessary Affidavit for probate.

In order to meet the expenses and duties payable, the Executors borrowed £4,000 from the National Provincial Bank, Ltd. The Executors opened an account with the above Bank, to which the balance of the Testator's Current Account was transferred and the above loan of £4,000 duly credited. The cash in the house (£12 10s.) was paid in.

April 19th.—The Funeral Expenses (F. Drake & Co.), £45, were paid.

April 21st.—The Debts due from the Testator at death were paid, as follows :—

	£	s.	d.
J. Schofield	25	0	0
George Johnson	10	0	0
R. Reeves	12	12	0

J. Ronar paid the loan of £100 owing by him.

May 8th.—The Affidavit for probate was sworn, the Estate being stated at £34,435 19s. 10d. Estate Duty on Personalty £31,945 12s. 6d. at 11 % (£3,514 0s. 4d.) was paid, together with interest thereon, from March 31st to date (38 days), at 4 % per annum (£14 12s. 8d.).

Duty was also paid on the Net Real Estate of £2,490 7s. 4d. at 11 % (£273 18s. 10d.).

Instructions were given by the Executors to Messrs Bond & Co., their stockbrokers, to sell all the investments, with the exception of the Illyria Harbour Trust.

May 10th.—Sold Notes were received from Messrs. Bond & Co. as follows :—

£8,000 Local Loans Stock at 61 = £4,880, less expenses, £10 13s. 6d.

£4,000 5 % War Loan at $102\frac{1}{2}$ = £4,100, less expenses, £6 11s.

£9,500 London County Council $3\frac{1}{2}$ % Stock at 73 = £6,935, less expenses, £14 18s.

£4,000 Canadian Pacific Debentures at 81 = £3,240, less expenses, £10 6s.

£3,750 London, Midland & Scottish Railway $4\frac{1}{2}$ % Guaranteed Stock at $78\frac{4}{5}$ = £2,955, less expenses, £15 6s.

May 22nd.—A Cheque was received from Messrs. Bond & Co. for £22,052 5s. 6d., being net proceeds of sales made on the 16th instant.

May 25th.—The Mortgage of £1,000 on Testator's freehold house (George Jones, mortgagee) was paid off as directed by the terms of the will. Interest to date was also paid (less tax).

Legacy Duty on the Household Furniture, £10 10s., and Succession Duty on the Freehold House, £22 3s. 3d. (specific legacy and devise to the widow), and Legacy Duty on the Estate Duty and Succession Duty (since these were directed to be paid by the Estate), £2 19s. 3d., were paid.

Cash & Co. were paid £5 5s., being fee for valuing the household furniture and effects.

May 26th.—Bond & Co. were paid £15 15s., being fee for valuation of investments for probate purposes.

May 28th.—Dr. Forbes was paid £16 5s. 6d due for medical attendance on Testator.

May 29th.—Jonas Smithers repaid his loan on mortgage of £5,000, with £79 1s 10d interest (less tax at 4s. 6d) to date.

R. Barnes repaid the £450 due from him, with interest (less tax), £7 2s. 4d.

The Northern Assurance Company paid £1,000, the amount due under the Testator's life policy (No. 96421).

May 31st.—A cheque was drawn for £5 to reimburse the Executors for sundry incidental expenses incurred on behalf of the life tenants.

June 1st.—The dividend on War Loan for the half-year to date was duly received.

June 2nd—The loan from the Bank of £4,000 was repaid with £35 2s. 2d. interest.

June 5th.—The legacy to the Middlesex Hospital, £1,000, and the duty thereon, were paid.

June 7th.—Messrs. Deed & Co 's costs, £75, were paid.

June 8th.—The legacies bequeathed to the Executors (£250 each) were paid, less duty, which was deducted and paid to Somerset House

June 11th.—The legacies left to the servants, Mary Reeves (£100) and George Reimers (£50), were paid, less duty, which was deducted and paid to Somerset House.

June 30th.—A half-year's interest due this day on £1,000 Illyria Harbour Trust 6 % Bonds was received.

July 1st—The £1,000 Stock in Illyria Harbour Trust was duly transferred to Miss E. Williams, to whom it was specifically bequeathed, and Legacy Duty (£50) thereon was paid (the market value still being par) The interest received upon this investment since the date of death was duly handed to Miss Williams on this date, and the legacy duty thereon paid.

(NOTE.—Legacy duty on specific legacies must be paid upon the full amount passing on the date of assent.)

From the above particulars prepare the Estate Duty Account for probate purposes, write up and balance the Executors' books, and prepare accounts showing the position of the estate as at July 1, 1930.

The Estate Duty Account has to be prepared upon the official forms; these, however, are not reproduced. Readers should obtain a set of forms from Somerset House, or from a Head Post Office. For examination purposes it is sufficient to set out the details as shown hereunder. The preparation of this account is essential and is the first step to be taken by the Executors, as probate will not be granted until it has been filed. In practice it will be found that in many cases the official form does not furnish adequate space for the record of the necessary detail. In such cases separat

schedules of the items are prepared and attached to the official forms, which contain totals only, with a reference note "See Schedule A," and so on.

The figures appearing in the accounts set out hereafter are assumed to have been derived from the respective valuations of the stockbrokers, auctioneers, etc., which were obtained for probate purposes and duly submitted to the Inland Revenue authorities in support of the Estate Duty Account. The remaining figures were obtained from the Testator's papers, which were left in good order.

ESTATE DUTY ACCOUNT.

ACCOUNT NO. 1.

First Part.—Personal Property.			£	s.	d.
Local Loans 3 % Stock, £8,000, at 60 *ex div.*			4,800	0	0
Quarter's interest to April 5th accrued thereon		£60 0 0			
Less Income Tax at 4s.		12 0 0			
			48	0	0
5 % War Loan, £4,000 at 102			4,080	0	0
London County Council 3½ % Stock, £9,500 at 74 *ex div.*			7,030	0	0
Quarter's interest to April 5th accrued thereon		£83 2 6			
Less Income Tax at 4s.		16 12 6			
			66	10	0
Canadian Pacific Railway 4 % Consolidated Debenture Stock, £4,000 at 80			3,200	0	0
London, Midland & Scottish Railway 4 % Guaranteed Stock, £3,750 at 78			2,925	0	0
Illyria Harbour Trust 6 % Bonds at par			1,000	0	0
Jonas Smithers, Loan on Mortgage Account			5,000	0	0
Interest thereon to date of death (December 31, 1929, to March 31, 1930), 90 days at 5 % ($\frac{90}{365}$ × £125)		£62 3 1			
Less Income Tax at 4s. 6d.		13 19 9			
			48	3	4
Cash at Bank			1,240	0	0
Cash in the house			12	10	0
Debts due to deceased—					
J. Ronar			100	0	0
R. Barnes		£450 0 0			
5 % Interest from December 31, 1929, 90 days	£5 11 10				
Less Income Tax at 4s. 6d.	1 5 2				
		4 6 8			
			454	6	8
Northern Assurance Company, Life Policy			1,000	0	0
Household Furniture and Effects			1,050	0	0
			£32,054	10	0
Less Debts due by Testator at death—					
J. Schofield		£25 0 0			
R. Reeves		12 12 0			
G. Johnson		10 0 0			
Dr. Forbes		16 5 6			
		£63 17 6			
Funeral Expenses		45 0 0			
			108	17	6
Net Personalty			£31,945	12	6

Second Part.—Real Property in England

				£	s.	d.
Freehold House	£3,500	0	0			
Less Mortgage £1,000, and Interest thereon to date of death, 90 days, *less* Income Tax at 4s 6d	1,009	12	8			
Net Realty	£2,490	7	4			

Summary

	£	s.	d.
Net Personalty	31,945	12	6
Net Realty	2,490	7	4
Total	£34,435	19	10

Estate Duty Payable.

	£	s.	d.
On Net Personalty, 11 % on £31,945 12s. 6d.	3,514	0	4
Interest thereon at 4 % per annum from day after death to date of delivery of the affidavit, both days inclusive, 38 days	14	12	8
	3,528	13	0
On Net Realty, 11 % on £2,490 7s 4d	273	18	10
Total	£3,802	11	10

JOURNAL.

				L.F.	£	s.	d	£	s	d
1930 Mar. 31	Sundries Dr.									
	To Estate Account			1				35,554	10	0
	Local Loans 3 % Stock £8,000 at 60 *ex div*			2	4,800	0	0			
	Quarter's Interest to April 5th	£60 0	0							
	Less Income Tax at 4s.	12 0	0	2	48	0	0			
	5 % War Loan £4,000 at £102			3	4,080	0	0			
	London County Council 3½ % Stock £9,500 at 74 *ex div*			4	7,030	0	0			
	Quarter's Interest to April 5th	£83 2	6							
	Less Income Tax at 4s ..	16 12	6	4	66	10	0			
	Canadian Pacific Railway 4 % Consolidated Debenture Stock £4,000 at 80			5	3,200	0	0			
	London Midland & Scottish Railway 4 % Guaranteed Stock, £3,750 at 78 .			6	2,925	0	0			
	Illyria Harbour Trust 6 % Bonds, £1,000 at par			7	1,000	0	0			
	Jonas Smithers, Loan on Mortgage Account			8	5,000	0	0			
	Interest thereon to date of death (December 31, 1929, to March 31, 1930), 90 days at 5 % .. .	£62 3	1							
	Less Income Tax at 4s 6d.	13 19	9	8	48	3	4			
	Debts due to deceased									
	J. Ronar (free of interest)			9	100	0	0			
	R Barnes			10	450	0	0			
	5 % Interest from December 31, 1929, 90 days .	£5 11	10							
	Less Income Tax at 5s. . ..	1 5	2	10	4	6	8			
	Northern Assurance Co , Ltd , Life Policy Account			11	1,000	0	0			
	Freehold House			12	3,500	0	0			
	Household Furniture and Effects ..			13	1,050	0	0			
	The National Provincial Bank, Ltd , Current Account			C.B. 1	1,240	0	0			
	Cash in the House			1	12	10	0			
	Being Sundry Assets at the date of death as per Estate Duty Account.									

JOURNAL —*continued*

1930		L F	£	s	d	£	s	d.
Mar 31	Estate Account .. .. .. Dr.	1	1,118	10	2			
	To Sundries—							
	,, Funeral Expenses	15				45	0	0
	,, Debts due at death	16				63	17	6
	Geo Jones, Loan on Mortgage Account	17				1,000	0	0
	,, Interest from December 31, 1929, 90 days at 5 % .. £12 8 7 *Less* Income Tax at 4s. 6d 2 15 11	17				9	12	8
July 1	Sundries Dr							
	To Sundries—							
	Local Loans 3 % Stock	2	66	13	2			
	War Loan 5 % Stock	3	64	11	0			
	London, Midland & Scottish Railway 4 % Guaranteed Stock	6	14	14	0			
	London County Council 3½ % Stock	4				113	11	11
	Canadian Pacific Railway 4 % Consol Debenture Stock	5	29	14	0			
	To Estate Account	1				62	0	3
	Transfers to Estate Account of Profits on realisation and in case of London County Council 3½ % Stock, loss							
,, 1	Sundries Dr							
	To Income Account	22				66	9	5
	Local Loans 3 % Stock	2	2	13	4			
	War Loan 5 % Stock	3	26	8	0			
	London County Council 3½ % Stock	4	3	13	11			
	Jonas Smithers, Loan on Mortgage Account	8	30	18	6			
	Robert Baines	10	2	15	8			
	Transfers to Income Account of Interest from date of death.							
,, 1	Income Account .. .. .. Dr.	22	60	10	0			
	To Sundries—							
	,, George Jones	17				5	15	2
	,, Testamentary and Executorship Expenses	19				19	12	8
	,, National Provincial Bank, Loan Account	18				35	2	2
	Transfers to Income Account.							
1	Illyria Harbour Trust 6 % Bonds	7	11	13	10			
	To Miss E. Williams	20				11	13	10
	Income from date of death on Specific Legacy transferred							
,, 1	Legacies and Devises Account .. Dr.	21	5,538	8	10			
	To Sundries—							
	,, Household Furniture	13				1,050	0	0
	,, Freehold House	12				3,500	0	0
	,, Illyria Harbour Trust 6 % Bonds	7				988	8	10
	Specific Legacies and Devise transferred							
,, 1	Estate Account .. .. Dr.	1	11,258	12	2			
	To Sundries—							
	,, Legacies and Devises Account	21				7,374	13	0
	,, Testamentary and Executorship Expenses	19				3,883	19	2
	Balances transferred to Estate Account.							
,, 1	Income Account .. .. Dr	22	13	12	9			
	To Sundries—							
	,, Mrs Endive	14				9	1	10
	,, Edith Williams	20				4	10	11
	Transfer of balance of Income Account, two-thirds to Mrs Endive and one-third to Edith Williams.							

JOURNAL —*continued.*

		L F	£	s	d	£	s.	d.
1930. July 1	War Loan 5 % Stock .. Dr							
	Income	3	7	13	4			
	Capital	3	14	16	8			
	Income Tax Reserve	23				22	10	0
	Reserve at 4s. 6d in £ for Income Tax on Untaxed Interest							
	Income Tax Reserve .. Dr.	23	7	18	0			
	To Income Account	22				7	18	0
	Tax recoverable at 4s 6d in £ on Bank Interest (set off against tax due on War Loan Interest).							

Note—No reserve is necessary in respect of Schedule A Income Tax on the House, since the tax for 1929–30 would have been paid on or after 1st January, 1930, and the tax from the date of death is a liability of the devisee.

[*Continued on p* 1018.

EXAMINATION QUESTIONS.

1. What are the requirements of a valid will? By his will A appoints B as his executor. Is B competent (*a*) to witness the will, (*b*) to take a gift under the will? (*Central Association Accountants*)

2. What are the requisites for making a valid will? What is the legal presumption as to alterations appearing on the face of the will? (*Central Association Accountants.*)

3. Describe the manner and effect of proving a will (*a*) in common form, (*b*) in solemn form. (*Incorporated Accountants.*)

4. Explain briefly in what way a will may validly be (*a*) executed, (*b*) revoked, and (*c*) revived. (*Incorporated Accountants.*)

5. What is the difference between an executor and an administrator? How does each obtain office? (*Chartered Accountants.*)

6. Distinguish between the office of executor and administrator with regard to (1) the time of vesting of the estate, and (2) the transmissibility of the office In what events is it necessary to obtain a grant of letters of administration (*a*) *cum testamento annexo*, (*b*) *de bonis non*? (*Incorporated Accountants.*)

7. If an accountant be appointed executor, can he charge the estate for professional work done by himself for the benefit of the estate as distinct from the ordinary work of an executor? (*Central Association Accountants.*)

8. What liabilities does an executor incur if he commits the following acts, viz.: (1) He fails to invest a large sum of money due to the testator? (2) He uses some of the testator's money in his own business? (3) He pays a statute-barred debt? (4) He overpays a creditor? (*Central Association Accountants.*)

9. In distributing the estate of his testator, in what order is the executor to pay debts, and what is the fund upon which they are in the first place chargeable? What is meant by the "marshalling of the assets"? (*Incorporated Accountants.*)

10. Assuming that you had been appointed an executor, give a concise statement of the steps you would take to ascertain the nature and value of the deceased's estate for the purpose of obtaining probate, it being known that the deceased, in addition to his interest in a partnership, has been possessed of other sources of income (*Chartered Accountants.*)

[*Continued on p.* 1041.

DR. CASH BOOK.

Date.	Particulars.	Folio	Voucher No.	Income £	s.	d.	Capital £	s.	d.	Bank. £	s.	d.
1930 Mar. 31	To Cash in the House	J 1					12	10	0	12	10	0
	,, Current Account, Transfer of Balance	J. 1					1,240	0	0	1,240	0	0
April 6	,, Loan from Bankers . ..	18					4,000	0	0	4,000	0	0
	,, Quarter's Interest to 5th inst., viz £8,000, Local Loans 3 %, *less* Tax at 4s.											
	Capital 85 days	2					45	6	8			
	Income 5 days	2		2	13	4				48	0	0
	£9,500 London County Council 3½ %, Capital 85 days, Income 5 days .	4		3	13	11	62	16	1	66	10	0
,, 21	,, J. Ronar, Repayment of Loan, free of Interest . .	9					100	0	0	100	0	0
May 22	,, Bond & Co, Proceeds of Sale of Investments, *less* Expenses											
	£8,000 Local Loans 3 % Stock	2					4,869	6	6			
	£4,000 War Loan 5 % *ex div*	3					4,093	9	0			
	£9,500 London County Council 3½ %	4					6,920	2	0			
	£4,000 Canadian Pacific 4 % Debentures . .	5					3,229	14	0			
	£3,750 London, Midland & Scottish Railway 4 % Guaranteed Stock ..	6					2,939	14	0	22,052	5	6
,, 29	,, Jonas Smithers											
	Repayment of Loan on Mortgage	8					5,000	0	0			
	149 days' Interest at 5 % £102 1 1 *Less* Income Tax at 4s 6d... 22 19 3 £79 1 10											
	Capital 90 days, Income 59 days	8		30	18	6	48	3	4	5,079	1	10
,, 29	,, R. Barnes.											
	Repayment of Loan	10					450	0	0			
	149 days' Interest at 5 % ..£9 3 8 *Less* Income Tax at 4s. 6d. .. 2 1 4 £7 2 4											
	Capital 90 days, Income 59 days	10		2	15	8	4	6	8	457	2	4
,, 29	,, Northern Assurance Company, Amount due under Policy of Assurance No 96421	11					1,000	0	0	1,000	0	0
June 1	,, Half-year's Interest on £4,000 War Loan 5 %, £100, Capital 120 days, Income 62 days	3		34	1	4	65	18	8	100	0	0
,, 30	,, Half-year's Interest on £1,000 Illyria Harbour Trust 6 % Bonds, *less* Tax, Capital 90 days, Income 91 days	7		11	13	10	11	11	2	23	5	0
			£	85	16	7	24,092	18	1	34,178	14	8
1930 July 1	To Balance brought down ..						23,254	4	7	23,254	4	7

CASH BOOK—*continued*. CR.

Date	Particulars.	Folio.	Voucher No.	Income. £	s	d.	Capital. £	s.	d.	Bank. £	s.	d.
1930.												
April 19	By F. Drake & Co	15					45	0	0	45	0	0
„ 21	„ Debts due at death :											
	J Schofield	16					25	0	0			
	R. Reeves	16					12	12	0			
	George Johnson.. ..	16					10	0	0	47	12	0
May 8	„ Inland Revenue ·											
	Estate Duty at 11% on Net Personalty of £31,945 12s 6d	19					3,514	0	4			
	Interest on above duty at 4 % p.a from death (March 31) to date, 38 days	19		14	12	8						
	Estate Duty on Net Real Estate, £2,490 7s 4d	19					273	18	10	3,802	11	10
„ 25	„ George Jones											
	Repayment of Mortgage	17					1,000	0	0			
	145 days' Interest at 5 % to date, *less* Income Tax at 4s 6d , £15 7s 10d , Capital 90 days, Income 55 days	17		5	15	2	9	12	8	1,015	7	10
„ 25	„ Succession Duty, Freehold House to Widow 1 % on £2,216 8s 6d , being £2,490 7s. 4d *less* Estate Duty, £273 18s 10d. ..	21					22	3	3	22	3	3
„ 25	„ Legacy Duty on Estate Duty and Succession Duty paid by Estate as directed ..	21					2	19	3	2	19	3
„ 25	„ Legacy Duty, Household Furniture to Widow 1 % on £1,050 . .	21					10	10	0	10	10	0
„ 25	„ Cash & Co., Fee for Valuing	19					5	5	0	5	5	0
„ 26	„ Bond & Co., Fee for Valuing..	19					15	15	0	15	15	0
„ 28	„ Dr. Forbes . ,	16					16	5	6	16	5	6
„ 31	„ Executorship Expenses, Incidentals . ..	19		5	0	0				5	0	0
June 2	„ National Provincial Bank, Ltd., Repayment of loan and 57 days' interest to date, as per Statement .	18		35	2	2	4,000	0	0	4,035	2	2
„ 5	„ Middlesex Hospital, Legacy	21					1,000	0	0	1,000	0	0
„ 5	„ Legacy Duty thereon at 10 %	21					100	0	0	100	0	0
„ 7	„ Deed & Co , Professional Costs	19					75	0	0	75	0	0
„ 8	„ Legacies .											
	George Ramshaw . £250 *Less* Legacy Duty 10% 25	21					225	0	0	225	0	0
	William Endive £250 0 *Less* Legacy Duty 5 % .. . 12 10	21					237	10	0	237	10	0
„ 8	„ Legacy Duty on above	21					37	10	0	37	10	0
„ 11	„ Legacies											
	Mary Reeves ..£100 *Less* Legacy Duty .. 10	21					90	0	0	90	0	0
	George Reimers 50 *Less* Legacy Duty .. 5	21					45	0	0	45	0	0
„ 11	„ Legacy Duty on above ..	21					15	0	0	15	0	0
July 1	„ Miss Williams, Interest on her specific legacy, as per contra	20		11	13	10				11	13	10
„ 1	„ Legacy Duty on specific legacy of £1,000 Illyria Harbour Trust Bonds to E Williams free of duty (5%)	21					50	11	8	50	11	8
„ 1	„ Mrs. Endive, two-thirds of of balance of Income, *less* Legacy Duty at 1 % ..	14		9	0	0				9	1	10
	„ Legacy Duty thereon . .	14		0	1	10						
„ 1	„ Edith Williams, one-third of balance of Income, *less* Legacy Duty at 5 %	20		4	6	5				4	10	11
„ 1	„ Legacy Duty thereon .. .	20		0	4	6						
„ 1	„ Balance carried down ..						23,254	4	7	23,254	4	7
			£	85	16	7	34,092	18	1	34,178	14	8

LEDGER.

1 ESTATE

Date	Particulars	J.	£	s.	d.	£	s.	d.
1930. Mar. 31	To Funeral Expenses	1				45	0	0
,, 31	,, Debts due at death	1				63	17	6
,, 31	,, G. Jones, Loan on Mortgage of Freehold House	1	1,000	0	0			
,, 31	,, Interest on ditto accrued to date of death, 90 days at 5 %, *less* tax	1	9	12	8			
						1 009	12	8
,, 31	,, Balance carried down, as per Estate Duty Account					34,435	19	10
					£	35,551	10	0
July 1	To Legacies and Devises Account transferred	3				7,374	13	0
,, 1	,, Testamentary and Executorship Expenses Account transferred	3				3,883	19	2
,, 1	,, Balance carried down					23,239	7	11
					£	34,498	0	1

2 LOCAL LOANS

Date	Particulars	J.	Income £	s.	d.	Capital £	s.	d.
1930. Mar. 31	To Estate Account, £8,000 Stock valued at 60 *ex div.*	1				4,800	0	0
,, 31	,, Estate Account, Quarter's Interest to April 5th, *less* tax	1				48	0	0
July 1	,, Estate Account, Transfer of Profit on Realisation	2				66	13	2
,, 1	,, Income Account, Transfer	2	2	13	4			
		£	2	13	4	4,914	13	2

3 WAR LOAN

Date	Particulars	J.	£	s.	d.	£	s.	d.
1930 Mar. 31	To Estate Account, £4,000 Stock valued at 102	1				4,080	0	0
July 1	,, Estate Account, Transfer of Profit on Realisation	2				64	11	0
,, 1	,, Income Account, Transfer	2	26	8	0			
	,, Reserve for Income Tax at 4s. 6d. on Investment Received	2	7	13	4	14	16	8
		£	34	1	4	4,159	7	8

LEDGER—*continued*.

ACCOUNT. 1

		J.	£	s	d	£	s	d.
1930 Mar. 31	By Sundry Assets, as valued for Estate Duty Account, viz:							
	Local Loans 3 % Stock, £8,000 at 60 *ex div.*	1	4,800	0	0			
	Quarter's Interest to April 5th, *less* tax	1	48	0	0			
	5 % War Loan, £4,000 at 102	1	4,080	0	0			
	London County Council 3½ % Stock, £9,500 at 74 *ex div.*	1	7,030	0	0			
	Quarter's Interest to April 5th, *less* tax	1	66	10	0			
	Canadian Pacific Railway 4 % Consolidated Debenture Stock, £4,000 at 80	1	3,200	0	0			
	London, Midland & Scottish Railway 4 % Guaranteed Stock, £3,750 at 78	1	2,925	0	0			
	Illyria Harbour Trust 6 % Bonds, £1,000 at par	1	1,000	0	0			
	Jonas Smithers, Loan on Mortgage Account	1	5,000	0	0			
	Interest accrued to date of death 90 days at 5 %, *less* tax	1	48	3	4			
	Debts due to deceased—							
	J Ronar	1	100	0	0			
	R. Barnes	1	450	0	0			
	Interest accrued to date of death 90 days at 5 %, *less* tax	1	4	6	8			
	Northern Assurance Co., Ltd., Life Policy Account	1	1,000	0	0			
	Freehold House	1	3,500	0	0			
	Household Furniture and Effects	1	1,050	0	0			
	Cash at the Bank	1	1,240	0	0			
	Cash in the House	1	12	10	0	35,554	10	0
Mar 31	By Balance brought down					34,435	19	10
July 1	,, Profits on Realisation transferred, viz							
	Local Loans 3 % Stock	2	66	13	2			
	War Loan 5 % Stock	2	64	11	0			
	Canadian Pacific Railway 4 % Consol Debenture Stock Account	2	29	14	0			
	London, Midland & Scottish Railway 4 % Guaranteed Stock	2	14	14	0			
			175	12	2			
	Less Loss on London County Council 3½ % Stock	2	113	11	11	62	0	3
					£	34,498	0	1
July 1	By Balance Brought down					23,239	7	1

3 % STOCK. 2

			Income			Capital		
1930		C B	£	s	d	£	s	d
April 5	By Cash Quarter's Interest to 5th inst on £8,000 Stock, *less* tax, Capital 85 days, Income 5 days	1	2	13	4	45	6	8
May 22	,, Cash: Proceeds of sale of £8,000 Stock at 61 . . £4,880 0 0; *Less* Commission and Stamps 10 13 6	1				4,869	6	6
		£	2	13	4	4,914	13	2

5 % STOCK. 3

		C B.	£	s.	d	£	s.	d
1930. May 22	By Cash. Proceeds of sale of £4,000 Stock at 102½ . . £4,100 0 0; *Less* Commission and Stamps 6 11 0	1				4,093	9	0
June 1	,, Cash: Half-year's Interest on £4,000 Stock, Capital 120 days, Income 62 days	1	34	1	4	65	18	8
		£	34	1	4	4,159	7	8

LEDGER—*continued.*

4 LONDON COUNTY COUNCIL

			Income.			Capital.		
		J.	£	s.	d.	£	s.	d.
1930 Mar. 31	To Estate Account, £9,500 Stock valued at 74 *ex div.*	1				7,030	0	0
,, 31	,, Estate Account, Quarter's Interest to April 5th, *less* tax	1				66	10	0
July 1	,, Income Account, Transfer	2	3	13	11			
		£	3	13	11	7,096	10	0

5 CANADIAN PACIFIC RAILWAY

		J.	£	s.	d.	£	s.	d.
1930. Mar 31	To Estate Account, £4,000 Stock valued at 80 ..	1				3,200	0	0
July 1	,, Estate Account, Transfer of Profit on Realisation	2				29	14	0
						£3,229	14	0

6 LONDON, MIDLAND & SCOTTISH RAILWAY

		J.	£	s	d.	£	s	d
1930 Mar. 31	To Estate Account, £3,750 Stock valued at 78	1				2,925	0	0
July 1	,, Estate Account, Transfer of Profit on Realisation	2				14	14	0
						£2,939	14	0

7 ILLYRIA HARBOUR TRUST

		J.	£	s.	d.	£	s.	d.
1930 Mar 31	To Estate Account, £1,000 Bonds valued at par	1				1,000	0	0
July 1	,, Miss E Williams, Transfer	3	11	13	10			
		£	11	13	10	1,000	0	0

8 JONAS SMITHERS

		J	£	s.	d.	£	s.	d.
1930 Mar. 31	To Estate Account	1				5,000	0	0
,, 31	,, Estate Account, Interest accrued to date of death 90 days at 5 %, *less* tax	1				48	3	4
July 1	,, Income Account, Transfer	2	30	18	6			
		£	30	18	6	5,048	3	4

9 JAMES

		J	£	s.	d.	£	s.	d.
1930. Mar. 30	To Estate Account, Debt, free of interest, due at date of death	1				100	0	0

LEDGER—*continued.*

3½ % Stock. **4**

			Income			Capital.		
			£	s	d.	£	s.	d.
1930 April 6	By Cash: Quarter's Interest to 5th inst. on £9,500 Stock, *less* tax, Capital 85 days, Income 5 days ..	C B 1	3	13	11	62	16	1
May 22	,, Cash: Proceeds of sale of £9,500 Stock at 73 . . £6,935 0 0; *Less* Commission and Stamps 14 18 0	1				6,920	2	0
July 1	,, Estate Account, Transfer of Loss on Realisation	J 2				113	11	11
		£	3	13	11	7,096	10	0

4 % Consolidated Debenture Stock. **5**

1930.		C B.	£	s	d	£	s.	d.
May 22	By Cash: Proceeds of sale of £4,000 Stock at 81.. .. .. £3,240 3 0; *Less* Commission and Stamps 10 9 0	1				3,229	14	0
						£3,229	14	0

4 % Guaranteed Stock. **6**

1930.		C B	£	s.	d	£	s	d.
May 22	By Cash: Proceeds of sale of £3,750 Stock at 78¾ .. .. .. £2,955 0 0; *Less* Commission and Stamps 15 6 0	1				2,939	14	0
						£2,939	14	0

4 % Bonds. **7**

1930		C.B	£	s.	d.	£	s.	d.
June 30	By Cash, Half Year's Interest on £4,000 Bonds, *less* tax, £23 5s., Capital 90 days, Income 19 days ..	1	11	13	10	11	11	2
30	,, Legacies Account, Specific Legacy to Miss E. Williams	J. 3				988	8	10
		£	11	13	10	1,000	0	0

Loan on Mortgage Account. **8**

1930		C B	£	s	d.	£	s	d
May 29	By Cash, Repayment of Loan	1				5,000	0	0
,, 29	,, Cash, Interest to date 149 days at 5 %, *less* tax, £79 1s. 10d., Capital 90 days, Income 59 days ..	1	30	18	6	48	3	4
		£	30	18	6	5,048	3	4

Ronar. **9**

1930.		C B	£	s	d.	£	s	d.
April 21	By Cash, Repayment of Loan	1				100	0	0

LEDGER—*continued.*

10 ROBERT

Date	Particulars	Fo.	Income. £	s.	d.	Capital. £	s.	d.
1930. Mar 31	To Estate Account, Loan due at date of death at 5 %	J. 1				450	0	0
,, 31	,, Estate Account, Interest accrued to date of death 90 days at 5 %, *less* tax	1				4	6	8
July 1	,, Income Account, Transfer	2	2	15	8			
		£	2	15	8	454	6	8

11 NORTHERN ASSURANCE COMPANY, LIMITED,

Date	Particulars	Fo.	£	s.	d.	£	s.	d.
1930 Mar 31	To Estate Account, Policy for £1,000	J 1				1,000	0	0

12 FREEHOLD

Date	Particulars	Fo.	£	s.	d.	£	s.	d.
1930. Mar 31	To Estate Account, as per Valuation	J. 1				3,500	0	0

13 HOUSEHOLD FURNITURE

Date	Particulars	Fo.	£	s.	d.	£	s.	d.
1930. Mar 31	To Estate Account, as per Valuation	J 1				1,050	0	0

14 MRS.

Date	Particulars	Fo.	£	s.	d.	£	s.	d.
1930. July 1	To Cash	C B. 2				9	0	0
	*Cash Legacy Duty, 1 % on £9 1s. 10d.					0	1	10

15 FUNERAL

Date	Particulars	Fo.	£	s.	d.	£	s.	d.
1930. April 19	To Cash	C B 1				45	0	0

16 DEBTS DUE

Date	Particulars	Fo.	£	s.	d.	£	s.	d.
1930 April 21	To Cash: J Schofield	C.B 1				25	0	0
	R. Reeves	1				12	12	0
	George Johnson	1				10	0	0
May 28	,, Cash, Dr. Forbes	1				16	5	6
						£63	17	6

17 GEORGE JONES,

Date	Particulars	Fo.	£	s.	d.	£	s.	d.
1930 May 25	To Cash Repayment of Mortgage	C B. 1				1,000	0	0
	Interest to date at 5 %, *less* tax, £15 7s. 10d. Capital 90 days, Income 55 days	1	5	15	2	9	12	8
		£	5	15	2	1,009	12	8

18 NATIONAL PROVINCIAL BANK,

Date	Particulars	Fo.	£	s.	d.	£	s.	d.
1930. June 2	To Cash, Repayment of Loan and 57 days' interest as per Bank Statement	C.B 1	35	2	2	4,000	0	0

* Until the Residue is ascertained, these payments are subject to Legacy Duty as part of Residue.

LEDGER—*continued.*

BARNES. 10

Date	Particulars	Fo.	Income £	s	d	Capital £	s	d.
1930. May 29	By Cash, Repayment of Loan	C.B 1				450	0	0
,, 29	,, Cash, Interest to date at 5 % 149 days, *less* tax, £7 2s. 4d., Capital 90 days, Income 59 days	1	2	15	8	4	6	8
		£	2	15	8	454	6	8

LIFE POLICY ACCOUNT. 11

Date	Particulars	Fo.	£	s.	d.	£	s	d.
1930 May 29	By Cash, Amount due under Policy No 96421 .	C.B 1				1,000	0	0

HOUSE. 12

Date	Particulars	Fo.	£	s	d	£	s	d.
1930. July 1	By Legacies Account, Specific Legacy transferred	J. 3				3,500	0	0

AND EFFECTS. 13

Date	Particulars	Fo.	£	s	d	£	s	d.
1930. July 1	By Legacies Account, Specific Legacy transferred	J 3				1,050	0	0

ENDIVE. 14

Date	Particulars	Fo.	£	s.	d.	£	s.	d.
1930 July 1	By Income Account, two-thirds of £13 12s. 9d...	J 3				9	1	10

EXPENSES. 15

Date	Particulars	Fo.	£	s	d.	£	s	d.
1930. Mar 31	By Estate Account	J 1				45	0	0

AT DEATH. 16

Date	Particulars	Fo.	£	s	d.	£	s.	d
1930. Mar. 31	By Estate Account	J 1				63	17	6
						£63	17	6

MORTGAGE OF FREEHOLD HOUSE ACCOUNT. 17

Date	Particulars	Fo.	£	s.	d.	£	s	d
1930 Mar. 31	By Estate Account	J. 1				1,000	0	0
,, 31	,, Estate Account, Interest accrued to date of death, *less* tax	1				9	12	8
July 1	,, Income Account, Transfer	2	5	15	2			
		£	5	15	2	1,000	12	8

LTD., LOAN ACCOUNT. 18

Date	Particulars	Fo.	£	s.	d	£	s	d.
1930. April 6	By Cash	C.B 1				4,000	0	0
July 1	,, Income Account, Transfer	J 2	35	2	2			

LEDGER—*continued.*

19 TESTAMENTARY AND

Date	Particulars	C.B	Income. £	s.	d.	Capital £	s.	d.
1930. May 8	To Cash : Estate Duty at 11 % on £31,945 12s 6d. Personal Estate	1				3,514	0	4
	Interest from date of death to date, 38 days at 4 % per annum	1	14	12	8			
	Estate Duty at 11 % on £2,490 7s 4d, Real Estate	1				273	18	10
" 25	" Cash, Cash & Co., Valuation Fee	1				5	5	0
" 26	" Cash, Bond & Co , Valuation Fee	1				15	15	0
" 31	" Cash, Incidental Expenses	1	5	0	0			
June 7	" Cash, Deed & Co , Law Costs	1				75	0	0
		£	19	12	8	3,883	19	2

20 MISS E.

Date	Particulars	C.B.	£	s	d.	£	s.	d.
1930. July 1	To Cash	1				11	13	10
" 1	" Cash	1				4	6	5
" 1	" Cash, Legacy Duty 5 % on £4 10s 11d	1				0	4	6
						£16	4	9

21 LEGACIES AND

Date	Particulars	C.B.	£	s	d	£	s.	d.
1930. May 25	To Cash, Succession Duty on Freehold House to Widow	1				22	3	3
" 25	" Cash, Legacy Duty on Furniture to Widow	1				10	10	0
" 25	" Cash, Legacy Duty on Estate and Succession Duties in House left free of all duties to Widow	1				2	19	3
June 5	" Cash, Middlesex Hospital, Free of Duty	1				1,000	0	0
" 5	" Cash, Legacy Duty thereon 10 %	1				100	0	0
" 8	" Cash : Legacy to Geo. Ramshaw £250 0 0; *Less* duty 10 % 25 0 0	1				225	0	0
" 8	" Cash : Legacy to Wm. Endive £250 0 0; *Less* duty 5 % 12 10 0	1				237	10	0
" 8	" Cash, Legacy Duties on above	1				37	10	0
" 11	" Cash : Mary Reeves £100 0 0; *Less* duty 10 % 10 0 0	1				90	0	0
" 11	" Cash : George Reimers £50 0 0; *Less* duty 10 % 5 0 0	1				45	0	0
" 11	" Cash, Legacy Duty on above	1				15	0	0
July 1	" Cash, Legacy Duty, Miss E Williams, Niece (5 % on £1,011 13s. 10d)	1				50	11	8
" 1	" Household Furniture, Specific Legacy	J. 3				1,050	0	0
" 1	" Freehold House, Specific Devise	J 3				3,500	0	0
" 1	" Illyria Harbour Trust 6 % Bonds, Specific Legacy	J 3				988	8	10
						£7,374	13	0

22 INCOME

Date	Particulars	J.	£	s	d	£	s.	d.
1930 July 1	To George Jones	2				5	15	2
" 1	" Testamentary and Executorship Expenses	2				19	12	8
" 1	" National Provincial & Union Bank of England, Ltd , Loan Account	2				35	2	2
" 1	" Mrs Endive, two-thirds balance	3	9	1	10			
" 1	" Edith Williams, one-third balance	3	4	10	11	13	12	9
" 1	" *Balance carried down					0	4	8
						£74	7	5

* Until the Income Tax liability is discharged, and the amount of tax recoverable on the Bank Interest set off, the balance of Income Account not available in cash should not be distributed.

LEDGER—*continued.*

EXECUTORSHIP EXPENSES. 19

		J.	Income £	s.	d.	Capital £	s.	d.
1930.								
July 1	By Income Account, Transfer	2	19	12	8			
„ 1	„ Estate Account, Transfer	8				3,883	10	2
		£	19	12	8	3,883	19	2

WILLIAMS. 20

		J.	£	s.	d.	£	s.	d.
1930								
July 1	By Illyria Harbour Trust 6 % Bonds, Interest transferred	3				11	13	10
„ 1	„ Income Account, one-third of £13 12s 9d. .	3				4	10	11
						£16	4	9

DEVISES ACCOUNT. 21

		J.	£	s.	d.	£	s.	d.
1930.								
July 1	By Estate Account, Transferred	3				7,374	13	0
						£7 374	13	0

ACCOUNT. 22

		J.	£	s.	d.	£	s.	d.
1930.								
July 1	By Local Loans 3 % Stock	2	2	13	4			
„ 1	„ War Loan 5 % Stock	2	26	8	0			
„ 1	„ London County Council 3½ % Stock ..	2	3	13	11			
„ 1	„ Jonas Smithers, Loan on Mortgage Account	2	30	18	6			
„ 1	„ Robert Barnes ..	2	2	15	8			
„ 1	„ Income Tax recoverable on Bank Interest ..	2	7	18	0			
			74	7	5			
„ 1	„ By Balance brought down		0	4	8			

LEDGER—*continued.*

23			Income.			Income Tax Capital.		
		J.	£	s.	d.	£	s.	d.
1930. July 1	To Income Account, Income Tax Recoverable on Bank Interest..	2	7	18	0			
	Balance carried down					14	16	8
			7	18	0	14	16	8
July 1	To Balance brought down		0	4	8			

Note—As a general rule, income must not be anticipated in Executorship Accounts, but where, as in this case, the amount due is recoverable by set-off against a liability which must be reserved against, it would be incorrect not to bring it into account.

TRIAL BALANCE, JULY 1, 1930.

		£	s.	d.	£	s.	d.
C.B.	Cash, Capital	23,254	4	7			
Folio 1	Estate Account				23,239	7	11
22	Income Account				0	4	8
23	Income Tax Reserve	0	4	8	14	16	8
	£	23,254	9	3	23,254	9	3

THE RESIDUARY ACCOUNT.

When all legacies, debts, duties, and expenses have been paid, it is the duty of the Executors to prepare an account showing the undistributed assets which remain in hand. This account, called the *Residuary Account*, as stated on p. 1001, must be prepared in the official form and forwarded to the authorities at Somerset House. The object of the account is to show the residue available for distribution amongst the residuary legatees, in order that the Legacy Duty payable thereon by those to whom the residue is bequeathed may be computed. In some cases succession duty is also payable. Upon reference to the form of this account (p. 1030), it will be noted that separate columns are provided (*a*) for assets sold, and (*b*) for those remaining unsold. The net amount realised by each asset sold is inserted in case (*a*), and in case (*b*) the market value of the assets remaining in hand upon the date when the Residuary Account is brought in. The basis for the necessary valuations is the same as that already explained in the case of the Estate Duty Account. After accounting for the balance of any income received during the executorship (Account II), and for the necessary payments out of Capital and the expenses of administration (Account I), the net amount of the residue is arrived at, and this amount is liable to Legacy Duty, according to the Table already given (p. 993). Any amounts which have been retained to pay outstanding debts or legacies may be deducted in arriving at the net residue.

Where, however, the residue is left to persons in succession who are not all liable to the same rate of legacy duty, no income is to be brought into the account, since its purpose is then merely to enable the Inland Revenue Authorities to compute the annual

LEDGER—*continued.*

RESERVE. 23

		J.	Income. £	s.	d.	Capital. £	s.	d.
1930 July 1	By War Loan 5 % Stock, Income Tax payable on interest received	2	7	13	4	14	16	8
	Balance carried down		0	4	8			
			7	18	0	14	16	8
July 1	By Balance brought down					14	16	8

income, upon the capitalised value of which (as ascertained from the *Succession Duty Act*, 1853, Tables) the Life Tenant's Legacy Duty is calculated. On the death of the life tenant, a further Residuary Account is necessary to ascertain the capital value of the property then passing to the remainderman, upon which he is assessed to Legacy Duty

Example.—George Smallways, of Benford, Essex, died on March 30, 19... He appointed Robert Ealing, 451 Broad Street, London, E C., as his executor. A legacy of £100, free of duty, was to be paid to his coachman, and the residue of his Estate was to be divided as to two-thirds to his widow and as to one-third to his niece.

The Estate was as follows :—

Cash in the house, £25. Cash at the Bank : Current Account, £950 ; Deposit Account, £1,000.

Consols, £3,000, sold at 55.

Bournemouth Corporation Stock, £3,000, sold at 62.

Japan 5 % (1907), £4,000, unsold, valued at 88.

Great Western Railway 4 % Debentures, £10,000, unsold, valued at 83.

Loan on Mortgage, £2,000 at 5 %, still outstanding.

Interest on Investments accrued due to date of death, £420, and since received.

Interest on Mortgage accrued due to date of death, £40, and since received.

Policy of Assurance (Northern Assurance Company), £3,000.

The net income upon the investments and mortgages accrued since death and received during the executorship amounted to £230, and the interest on the Bank Deposit to £12.

The following payments were made :—

Estate Duty, £1,870 2s. Interest thereon, £3 7s. 7d.

Debts due at date of death, £150.

Funeral Expenses, £45.

Executorship Expenses, £35.

Legacy to coachman, £100, free of duty.

Legacy Duty is payable by the widow on £13,862 6s. 11d. at 1 %, and by the niece on £6,931 3s. 6d. at 5 %.

RESIDUARY ACCOUNT.

ACCOUNT I.

Capital Account.

Description of Property.	Value of Property not converted into Money. £	s.	d.	Money received and Property converted into Money. £	s.	d.
£3,000 Consols @ 55				1,650	0	0
£3,000 Bournemouth Corporation Stock at 62				1,860	0	0
£4,000 5 % Japan (1907) at 88..	3,520	0	0			
£10,000 4½ Great Western Railway Debentures at 83	8,300	0	0			
Dividends, etc., on the above investments declared, received and accrued due prior to death				420	0	0
Cash in hand				25	0	0
Cash at Bank on Current Account				950	0	0
on Deposit Account				1,000	0	0
Loan on Mortgage, with interest to date of death	2,000	0	0	40	0	0
Policy of Assurance				3,000	0	0
Total of Column I, carried to Account III	£13,820	0	0			
Cash Capital				8,945	0	0
Payments out of Cash Capital—						
Estate Duty	1,870	2	0			
Funeral Expenses	45	0	0			
Executorship Expenses	35	0	0			
Debts..	150	0	0			
Pecuniary Legacies—£100 free of legacy duty, 10 % Legacy Duty £10	110	0	0	2,210	2	0
Net Total of Column 2, carried to Account III ..				£6,734	18	0

ACCOUNT II.

	£	s.	d.
Income subsequent to death—			
Dividends, etc.	230	0	0
Interest on Bank Deposit	12	0	0
Total	242	0	0
Payments out of Income—			
Interest on Estate Duty	3	7	7
Balance of Income carried to Account III	£238	12	5

ACCOUNT III.

	£	s.	d.
Net Total of Column 1, Account I	13,820	0	0
Net Total of Column 2, Account I	6,734	18	0
Balance of Income in Account III	238	12	5
Residue on which duty is chargeable..	£20,793	10	5

ESTATE DUTY ON CERTAIN PROPERTY TRANSFERRED TO COMPANIES.

(1) *Under S.* 34, *Finance Act*, 1930.
Property in which the Deceased had an Absolute Interest.

In recent years, owing to the high rates of Estate Duty payable, persons possessed of large landed estates, or holdings of investments, have sought to avoid Estate Duty by transferring their property to companies formed for the purpose. The consideration for the transfer was taken in the form of shares which the vendor of the property caused to be allotted to his dependants The shares were therefore gifts *inter vivos* and exempt from Estate Duty on his death, unless this occurred within three years of the transaction.

The donor (i e. the vendor of the property to the company) would, by agreement with, or under the Articles of, the company, retain the control of the Company and the right to a substantial income from the company, e.g. in directors' fees, annuities, etc., which did not attract Estate Duty, since their cessation did not constitute property passing at death.

The *Finance Act*, 1930, contained provisions designed to prevent the avoidance of Estate Duty by such means. The provisions are very involved, and the interpretation of many of the points contained therein is not free from doubt, but it is here proposed to describe them in sufficient detail for the purposes of examination of candidates.

The companies coming within the scope of the legislation are defined in S. 38, *Finance Act*, 1930, as:—

"any body corporate wheresoever incorporated, which either—

(i) is so constituted as not to be controlled by its shareholders or by any class thereof; or

(ii) has not issued to the public, or, in the case of a company which is about to make an issue of shares to the public, will not, when it has made that issue, have issued to the public, more than half of the shares by the holders whereof it is controlled."

The question of control would appear to be one of fact, to be decided upon in each case on its merits. Presumably "issued to the public" has the same meaning here as for the purposes of the *Companies Act*, 1929.

The charging provisions are found in S. 34, s.-s. (1), and apply to all deaths after July 31, 1930, in respect of transfers of property after July 31, 1918. It does not matter whether the transfer was made directly or indirectly to the company, so long as it comes within the provisions of sub-section (2), i.e. "any transfer, whether made for consideration or not, of property (being property which, if it had been in the disposition of the deceased at his death, would have been property in respect of which estate duty would have been payable on the death) or any interest in any such property, other than—

(*a*) *bona fide* sales where the consideration for the sale was received or receivable wholly by the deceased for his own use

or benefit and was satisfied [i.e. fully discharged] or to be satisfied in one or more of the following manners, that is to say, by a capital sum of a fixed amount or by shares in or debentures of the company,

(*b*) transfers of or incidental to the transfer of a business, not being a business which substantially consists in holding, managing, developing or dealing in land situate in Great Britain,

(*c*) transfers of, or of any interest in, property which by virtue of section 35, *Finance Act*, 1930 (*post*) is deemed to pass on the death;

(*d*) transfers of patents or copyrights, or of any moveable tangible property except money and securities [i.e. goods as defined in S. 62, *Sale of Goods Act*, 1893];

(*e*) transfers where either the deceased or the company is acting in the capacity of trustee, factor, agent, receiver, or manager."

It will be seen that transfers made before August 1, 1918, are exempt from the provisions, and that the property must consist of land in Great Britain, stocks or shares, money or securities for money; very little else could come within the above provisions. Property which, if retained by the deceased, would not have been subject to Estate Duty is specifically exempted.

If a transfer coming within the meaning of the provisions has been made, and the deceased has received within the "prescribed period" out of the resources or at the expense of the company, whether directly or indirectly, any such "benefit" as is specified in sub-section (2) (i) and (ii) (*see below*), there shall be computed for each accounting year falling wholly or partly within the prescribed period the proportion which the total value of the benefits so *received in the accounting year* * bears to the total income of the company in the accounting year, and, if the average of the proportions so computed exceeds 50 per cent., there shall, for the purposes of estate duty, be deemed to pass on the death (over and above any other property which passes or is deemed to pass thereon), such sum of money, not exceeding the value of the total assets of the company, as bears to the said value the same proportion as the said average proportion:

Provided that—

(*a*) the sum computed as aforesaid shall be reduced by the amount, if any, by which the principal value at the date of death—

(1) of the subject of the transfer; or

(2) if the subject of the transfer has been sold or exchanged by the company, either of the subject of the transfer or of the property in the hands of the company which is or represents the proceeds of the sale or exchange

* The words "received in the accounting year" are important. There is no provision for apportionment, e g., if director's fees for 1930 were *paid* in 1931, they would count as "benefits" of the recipient in 1931, even if the 1931 fees were also paid in 1931.

is shown to the satisfaction of the Commissioners of Inland Revenue to fall short of the said sum; and

(*b*) notwithstanding anything in this section, the value of any property or any interest in property shall not be taken into account, directly or indirectly, for the purpose of assessment of estate duty more than once on the same death; and

(*c*) if the total assets of the company comprise any property which is by virtue of S. 35, *Finance Act*, 1930 (*post*), deemed to pass on the death, there shall, in computing the said proportions, and ascertaining the sum of money, if any, which is deemed to pass by virtue of this section, be subtracted—

(1) from the value of the total assets of the company, the value of the said property as ascertained for the purposes of the next succeeding section,

(2) from the total income of the company in every accounting year, and also from the total value of the benefits received by the deceased therein, a sum equal to so much of that total income as is ascribable to—

(i) that property, or

(ii) in a case where that property is deemed to pass as being or representing the proceeds of any other property, that other property or the proceeds thereof or any property representing those proceeds.

The "benefits" referred to above are defined in sub-section (2) as:—

(i) any payments made, whether for consideration or not, to or for the benefit of the deceased, other than the following payments, that is to say:—

(1) dividends in respect of shares in the company;

(2) interest on, and repayments in respect of, money lent to the company (e.g. on debentures);

(3) payments of or on account of purchase money under a *bona fide* sale, where that purchase money is a capital sum of a fixed amount;

(4) payments of or on account of royalties, not being royalties limited to cease at the death of the deceased:

(ii) any right in or enjoyment of any land.

The above definition is comprehensive, and would include directors' fees, salaries, annuities, loans by the company to the deceased, rent of premises let by the deceased to the company, etc.

It is further provided by sub-section (3) that in ascertaining the value of a benefit—

(*a*) in the case of a benefit consisting of a payment, a deduction shall be made in respect of any income tax (other than sur-tax) paid or borne by the deceased in respect of that payment; and

(*b*) the value of a benefit consisting of any right in or enjoyment of land shall be computed by reference to the annual value of that land as ascertained for purposes of income tax, due allowance being made in respect of any rent paid by the deceased.

By sub-section (4), the total income for any accounting year of a company means the income of the company from any source computed in accordance with the provisions of the Income Tax Acts relating to the computation of income from such a source, subject to the modification that the computation shall be made by reference to the actual income for the accounting year and not by reference to the income for any other period:

Provided that—

(a) no deduction shall be made in respect of any payment made to or for the benefit of, or any other benefit accorded to, the deceased, except dividends on preference shares in, and interest on money lent to, the company; and

(b) subject to the provisions of the last preceding paragraph, deductions shall be made for—

(i) income tax paid or borne by the company; and

(ii) interest on money lent to the company; and

(iii) dividends on preference shares; and

(iv) rents, royalties and other payments by the company on which income tax is deducted at source.

Where the accounting years falling wholly or partly within the prescribed period do not coincide with the periods for which the accounts of the company are made up, the Commissioners of Inland Revenue may for the purpose of ascertaining the total income of the company for an accounting year divide any of the said periods and make such apportionments and aggregations of the income of the company as may be necessary, so, however, that any apportionments so made shall be made in proportion to the number of months or fractions of months in the respective periods for which the apportionment is made [S. 34, s.-s. (5)].

For the purposes of these provisions, the expression " accounting year,"—

(a) in relation to a company which at the time of the death of the deceased person has made up accounts for a period of twelve months ending on a date within the twelve months next preceding the death, means a period of twelve months ending either on that date or on the same day of the year in any previous year; and

(b) in relation to any other company, means a period of twelve months ending on such date within the twelve months next preceding the death as may be determined by the Commissioners of Inland Revenue or on the same day of the year in any previous year; and

The expression " the prescribed period " means the period which—

(i) ends on the date on which the last accounting year ends; and

(ii) begins three years before that date, or, if the company in question was not then in existence, on the day on which the company came into existence [S. 34, s.-s. (6)].

"Share" includes any interest whatsoever in a company, by whatsoever name it is called, analogous to a share, and the expression "shareholder" shall be construed accordingly:

"Preference share" means a share the holder whereof is entitled to a *dividend at a fixed rate only*:

"Value of the total assets of the company" means the principal value, ascertained in accordance with the provisions of sub-section (5) of section seven, *Finance Act*, 1894, of all the assets of the company as a going concern, including goodwill, after deducting therefrom—

(i) the par or redemption value, whichever is the greater, of any debentures, debenture stock and preference shares of the company;

(ii) all debts of the company incurred or created *bona fide* for consideration in money or money's worth;

(iii) such sum as on a just and fair computation represents any future or contingent liabilities of the company or any liabilities thereof which are uncertain in amount;

(iv) the amount of any reserve fund separately invested which is *bona fide* intended to be applied in payment of pensions to employees or otherwise for the benefit of them or their dependents or relatives, and in no other manner (S. 38).

Property which is deemed to pass on a death by virtue of the provisions of S. 34, *Finance Act*, 1930, forms an estate by itself, and is not to be aggregated with any other property [S. 34, s.-s. (7)]. It is thus still possible to reduce the Estate Duty payable on death by such a transfer, although the scope for avoidance is diminished.

As to the valuation of any shares retained by the deceased, see p. 1038.

(2) *Under S.* 35, *Finance Act*, 1930.

Property in which the Deceased had a Life Interest.

Where property is left to a person for life with remainder over, it is subject to Estate Duty on the death of the life tenant (except where the life tenant is the spouse of a person on whose death Estate Duty was paid on the settled property). In order to avoid such Estate Duty, it became common for the life tenant and the remainderman to transfer their respective interests to a company, under an agreement which secured to the life tenant an income equivalent to his original interest, but in a form which did not bring about a cesser of interest which attracted Estate Duty on his death. S. 35 is designed to meet such avoidance, and is as follows:—

(1) Where at any time before the death of a person dying after the commencement of this Act [July 31, 1930] any property in which the deceased had an estate or interest limited to cease at his death, was transferred by the deceased and the person interested in the remainder or reversion, whether directly or indirectly, and whether by one or more transactions, to or for the

benefit of a company to which this Part of this Act applies [see definition on p. 1031], then unless—

(*a*) the transfer was made before the first day of August, nineteen hundred and eighteen; or

(*b*) the property was settled property and the interest of the deceased would in any case have failed by reason of his death before it would have become an interest in possession, or

(*c*) the share of the consideration payable to the deceased in respect of the transfer was satisfied [i.e. fully discharged] *otherwise than* by an allotment of shares [see definition on p. 1035, but *include* preference shares] in the company or the grant to him by the company of an annuity or other right to receive periodical payments, not being payments on account of purchase money being a capital sum of fixed amount; or

(*d*) the deceased had at least three years before his death relinquished *all* interest in the property and had not at any time within those three years the possession or enjoyment (otherwise than under a lease or agreement for a lease at a rack rent) of *any* part thereof or of any benefit secured to him, *whether by contract or otherwise*, in relation to the relinquishment of his interest therein, and was not at any time within the said period in receipt of or entitled to *any* payment from the company, otherwise than in respect or on account of debentures or loans or purchase money being a capital sum of a fixed amount,

the property shall be deemed for the purposes of estate duty to pass on the death in like manner as if the estate or interest of the deceased therein had continued until the death·

Provided that where the property or any part thereof had been *bona fide* sold or exchanged by the company during the deceased's lifetime for full consideration in money or money's worth, the property or so much thereof as has been so sold or exchanged shall not be deemed to pass on the death, but in lieu thereof the proceeds of the sale or exchange or, as the case may be, the property which, at the time of death, represents those proceeds shall be deemed so to pass.

(2) In determining the value of any property deemed to pass under this section, there shall be deducted from the principal value thereof—

(*a*) so much of any sum borrowed by the company as has been applied by the company in the improvement of the property, and has not at the death been repaid by the company [i.e. loans, not debts other than loans];

(*b*) a sum equal to the capital sum of money paid to the deceased as part of the consideration for the transfer, and where estate duty is payable in connection with the death on any shares of or debentures in the company, a sum equal to the principal value of such of those shares or debentures as were transferred or allotted to the deceased in consideration of the transfer of the property.

(3) Property which is deemed to pass on a death by virtue of the provisions of this section shall, notwithstanding anything in any Act, be an estate by itself, and shall not be aggregated with any other property.

Enforcement of Liability.

It is provided by S. 36, *Finance Act*, 1930, that—

(1) The estate duty payable in respect of any property which is by virtue of the provisions sections 34 and 35 deemed to pass on the death of any person shall be a debt due from the company concerned to His Majesty.

(2) The company concerned shall be accountable for any such duty and shall, for the purpose of raising and paying that duty, have all the powers conferred on accountable persons by the *Finance Act*, 1894, and if the duty or any part thereof is paid by the executor of the deceased it shall be repaid to him by the company.

(3) Where on the death of any person a claim for duty arises by virtue of any of the provisions, sections 34 and 35, the company concerned shall notify the Commissioners of Inland Revenue of the death of the said person, and any company wilfully failing to give such a notification shall be liable to a penalty not exceeding five hundred pounds.

(4) The Commissioners of Inland Revenue may, for the purposes of carrying sections 34, 35 and 37 [see *ante*] into effect, require any company to which the sections apply [see p. 1031] to furnish to them within two months copies of such of the balance sheets and profit and loss or income and expenditure accounts, and such other particulars, as the Commissioners may reasonably require, and if any company fails to comply with the provisions of this sub-section—

(i) the company shall be liable to a penalty not exceeding five hundred pounds, and every director, manager, secretary or other officer of the company who knowingly and wilfully authorises or permits the failure shall be liable to the like penalty; and

(ii) an order may be made against all or any of the directors of the company requiring them to comply with the requirements of the Commissioners in like manner as an order may be made against any person who is accountable for succession duty or legacy duty to deliver an account and the provisions of section fifty-five of the Crown Suits, etc., Act, 1865, and in Scotland the provisions of section forty-seven of the Succession Duty Act, 1853, shall apply accordingly, subject to the necessary modifications.

VALUATION OF SHARES IN CERTAIN COMPANIES.

In order to ensure that shares in companies controlled by a deceased person are properly charged to Estate Duty, particularly where property of the company is subject to Estate Duty under

the provisions already mentioned, and in order to avoid a double charge of duty in the latter cases, it is provided in S. 37, *Finance Act*, 1930, that:—

(1) Where there pass on the death of any person dying after the commencement of this Act [July 31, 1930], any shares (not being preference shares) in any company to which this Part of this Act applies [see definition on p. 1035], then if either—

(*a*) there is deemed by virtue of the provisions of this Part of this Act [see SS. 34 and 35 *supra*] to pass on the death a sum of money computed by reference to the value of the total assets of the company; *or*

(*b*) the control of the company was immediately before the death in the hands of the deceased;

the principal value of those shares for the purposes of estate duty shall not be ascertained in the manner provided by sub-section (5) of section seven of the *Finance Act*, 1894, but shall be ascertained by reference to the value of the total assets of the company [see definition on p. 1035]:

Provided that in cases falling within paragraph (*a*) of this sub-section, the value of the total assets of the company shall, for the purposes of this section, be deemed to be reduced by the sum of money therein referred to.

(2) For the purposes of this section the control of a company shall be deemed to be in the hands of a person if—

(*a*) by virtue of the shares which he controls he has control of more than half the voting power of the company, or

(*b*) he has by virtue of the provisions in the memorandum of association or articles of the company, or other instrument whatsoever constituting or defining the constitution of the company, the powers of a board of directors or of a governing director or the right to nominate a majority of the directors or the power to veto the appointment of a director, or powers of the like nature; or

(*c*) he has otherwise the right to receive, or the power to dispose of, more than half of the income of the company.

(3) This section shall not apply to shares which have, within the period of twelve months immediately preceding the death of the deceased, been the subject of dealings on a recognised stock exchange in the United Kingdom or been quoted in the official list of such a stock exchange.

Illustration.—In 1920, A transferred to a company formed for the purpose land (including a mansion-house) worth £50,000 and stocks and shares worth £250,000. The company issued 100,000 6 % Preference Shares, and 200,000 Ordinary Shares, all of £1 each, fully paid, as consideration, 30,000 Ordinary Shares being allotted to A, the balance to his wife and children By an agreement with the company, as part of the arrangement, A was appointed governing director for life at a salary of £8,250 per annum, and the mansion-house was let to him at £120 per annum. The Net Annual Value of the mansion-house was £620, increased in 1931–32 to £720.

In 1925, on the death of his mother, A transferred to the company

his life interest in his mother's estate, the remainderman, X, also transferring his interest. A took in consideration £10,000 in cash and an annuity of £5,000 per annum, and X took 100,000 fully paid Ordinary Shares, the property being valued at £100,000.

On May 15, 1930, the company loaned A £650, free of interest.

The company made up its accounts at March 31st each year. On April 1, 1932, A died.

From the following information, compute, to the nearest £, the Estate Duty payable by the company, and calculate the value of the ordinary shares to be included in A's estate:—

Company's adjusted profits —1929–30, £20,000; 1930–31, £12,000; 1931–32, £18,000. Interest and Dividends received by company, 1929–30, £7,000; 1930–31, £7,000; 1931–32, £5,000. Loan Interest paid, 1929–30, £2,000. Income Tax paid by the company on its profits, interest and dividends (including tax deducted therefrom at source), 1929–30, £3,524; 1930–31, £6,075; 1931–32, £4,275. Value of property which had formed mother's estate, £98,000. Total Assets of company, £405,000. Creditors, £10,000. The Salary, Annuity and Preference Dividends were paid each year.

Solution.—

Calculation of "Benefits."

	1929–30 £	£	1930–31 £	£	1931–32 £	£
Salary	8,250		8,250		8,250	
Less Income Tax thereon after deducting earned income allowance £250 (@ 4/–)	1,600	(@ 4/6)	1,800	(@ 4/6)	1,800	
		6,650		6,450		6,450
Mansion-house—						
Net annual value	620		620		720	
Less Rent	120		120		120	
		500		500		600
Loan				650		
Annuity ignored under provisions of S 34, s.-s (1) (*c*) (2).						
Benefits		£7,150		£7,600		£7,050

Calculation of "Total Income of the Company."

	1929–30.		1930–31.		1931–32.	
Profits as adjusted for Income Tax purposes		20,000		12,000		18,000
Net annual value of Mansion-house		620		620		720
Interest and Dividend on Investments		7,000		7,000		5,000
		27,620		19,620		23,720
Less Annuity	5,000		5,000		5,000	
Loan Interest	2,000		—		—	
Preference Dividends	6,000		6,000		6,000	
		13000		11,000		11,000
		14,620		8,620		12,720
Less Income Tax paid	3,524		6,075		4,275	
Less Income Tax recouped by deductions	2,600		2,475		2,475	
		924		3,600		1,800
		£13,696		£5,020		£10,920

Proportions, per cent. $\frac{7,150}{13,696}=52\cdot21$ $\quad \frac{7,600}{5,020}=151\cdot39$ $\quad \frac{7,050}{10,920}=64\ 56$

Average, per cent. $\frac{52\ 21+151\cdot39+64\cdot56}{3}=\frac{268\cdot16}{3}=89\cdot39$

Liability under S. 35, Finance Act, 1930.

	£
Value of property transferred	98,000
Less Capital Sum paid to A on transfer	10,000
Amount liable	£88,000
Estate Duty thereon at 19 %	£16,720

(*Continued on page* 1040)

Liability under S. 34, Finance Act, 1930.

	£	£
Total Assets		405,000
Less Preference Shares at par	100,000	
Creditors	10,000	
Amount on which duty is payable under S. 35	88,000	
		198,000
Net assets		£207,000
Proportion liable, 89 39 %	= £185,037	
Estate Duty thereon at 24 %	£44,409	

Valuation of Ordinary Shares.

	£
Net Assets as above	207,000
Less Amount on which duty is payable under S 34	185,037
Nominal value of 800,000 shares	£21,963

Hence each share is valued at 1s. 5½d. approx. A holds 30,000 shares, valued at £2,196, for the purposes of his Estate Duty Account.

If A had held any of the Preference Shares in the company on his death, these would be valued at par for Estate Duty purposes.

11. Under what circumstances can an executor carry on the business of a testator, and to what extent ?

If he does carry on the business, what is the position (*a*) if profits are made, and (*b*) when there proves to be a deficiency of assets ? (*Chartered Accountants.*)

12. A testator with an ample estate left for the most part upon trust for many years, gave an annuity to a stranger in blood without any specific instructions as to the funds which were to provide such annuity.

State the different ways in which the trustees may provide for the payment of this annuity.

What duty is payable, and at what rate ? How is the amount of the duty arrived at, and how may it be paid ? (*Chartered Accountants.*)

13. Mention the various steps which an executor must take in order to obtain probate of a will. On what ground will a grant of probate be revoked, and what is the effect of such revocation ? (*Incorporated Accountants.*)

14. Explain fully a personal representative's (*a*) right of preference, (*b*) right of retainer ; (*c*) right to pay a statute-barred debt. How, if at all, are such rights affected by the fact that the Court has made an order for the administration of the estate ? (*Incorporated Accountants.*)

15. When and how may the office of executor be refused, and what are the consequences, as regards the future course of dealing with the estate, of such refusal respectively by (*a*) one of several executors, (*b*) all the executors ? (*Incorporated Accountants.*)

16. Within what time ought legacies to be paid ? How is the executor to deal with (i) a legacy bequeathed to an infant, (ii) the residue of the estate ? What accounts has an executor to prepare in the course of his duty ? (*Incorporated Accountants.*)

17. To what extent, if at all, is an executor entitled to delegate the duties of his office ? (*Incorporated Accountants.*)

18. What is meant by Administration Order, Renouncing Probate, Apportionment, Residue ? (*Chartered Accountants.*)

19. State shortly the duties of an executor, and how he may secure indemnity from a testator's creditors. (*Chartered Accountants.*)

20. What do you understand by the term "executor's year" ? (*Central Association Accountants.*)

21. In relation to executorship law, explain the terms : Nuncupative will, Limited grant, Lapse, Estate Duty, Caveat, Abatement, Realty. (*Incorporated Accountants.*)

22. What is meant by (1) an executor's right of preference ; (2) an executor's right of retainer ? By what means can the exercise of either such right be prevented ? Has the administrator either such right ? (*Incorporated Accountants.*)

23. In what circumstances (*a*) is an executor entitled to remuneration ; (*b*) does a legacy carry interest ; and (*c*) is an executor converted into a trustee ? (*Incorporated Accountants.*)

24. Explain the nature of the following forms of death duties, viz. (*a*) Estate Duty, (*b*) Succession Duty. After what length of time, if at all, are claims to these duties barred ? (*Central Association Accountants.*)

25. Explain the following terms : Ademption, Right of retainer, *Cestui que trust*, Devise. Administration *de bonis non.* (*Central Association Accountants.*)

26. What do you understand by the "Statutory Trusts" ? Explain fully the rules for distributing the estate of a person who dies intestate.

27. Distinguish between "general," "specific" and "demonstrative" legacies, and give examples of each.

What do you understand by "vested" and "contingent" legacies ? (*Chartered Accountants.*)

28. What items, if any, in connection with the "Funeral Expenses of the

Deceased" are not allowed to be deducted when preparing the forms for Estate Duty? *(Central Association Accountants.)*

29. The executors of A B ask you to undertake the audit of the estate accounts in due course, and to advise them whether you consider that a Minute Book is essential or advisable.

What reply should you make to this inquiry? If you consider such a book necessary, give a brief synopsis of the information it should contain. *(Chartered Accountants.)*

30. What items of expenditure would you expect to find in an Estate Account under the head of (*a*) Executorship Expenses, (*b*) Testamentary Expenses? *(Chartered Accountants.)*

31. Define the following terms: (*a*) A demonstrative legacy; (*b*) Marshalling the assets; (*c*) Personal and real estate, (*d*) the executor's year. *(Chartered Accountants.)*

32. For what purpose are the following required, by whom and to whom must they be rendered, and what information must they contain: (*a*) Corrective affidavit; (*b*) Residuary Account? *(Chartered Accountants.)*

33. If shares are sold between two dividend days, is a life tenant entitled to any apportionment of proceeds in respect of accruing dividend? *(Central Association Accountants.)*

34. Is a Minute Book essential or advisable in connection with executorship accounts? If so, when should it be introduced and how should it be kept? *(Central Association Accountants.)*

35. Enumerate the classes of death duties now in force. *(Central Association Accountants.)*

36. What interest has a widow in the estate of her husband who has died intestate, (*a*) where there are children of the marriage, (*b*) where there are none? *(Central Association Accountants.)*

37. X died leaving assets valued at £5,000, the income therefrom to be paid to his widow for life, with remainder to his only daughter. The income for the first year was £300, and the total of the debts and testamentary expenses due and paid was £1,000. Apportion that amount between Capital and Income in accordance with the rule in *Allhusen* v. *Whittle*. *(Central Association Accountants.)*

38. State the order of priority in which debts connected with an estate must be paid by the executor. *(Central Association Accountants.)*

39. Explain fully the meaning of the following terms:—(1) Ademption; (2) Intestate; (3) Life interest; (4) Residuary legatee; (5) Advancement; (6) Hotchpot. *(Chartered Accountants.)*

40. What relief has been granted by recent enactments where the net value of an estate for Estate Duty purposes just brings the estate from one rate of duty into another? Illustrate your answer showing at what point the higher rate of duty is more advantageous to the estate. *(Chartered Accountants.)*

41. In connection with Estate Duty accounts, what evidence of value would you be required to be furnished with in the case of the following assets: (1) Stocks and shares; (2) Household goods, pictures, china, horses, carriages, motors, etc.; (3) Freehold and leasehold properties. *(Chartered Accountants.)*

42. By his will B left his estate in trust, the income therefrom to be paid, as to one-half to his widow during her lifetime, and, as to the other half, equally amongst his four children. The value of the estate was £40,000 after discharging all liabilities, and the average rate of interest realised was 6 %.

He had, however, during his lifetime given to two of his children £5,000 and £3,000 respectively; and he directed that if these two desired to participate in the estate they were to bring the above sums into "hotchpot," to which they agreed.

How should these amounts be treated in the books of the trust? (*Chartered Accountants.*)

43. What should be the procedure of an executor (*a*) when there is an insufficiency of estate to satisfy all legacies under a will; (*b*) when, after the distribution of an estate, liabilities not previously ascertained are dis covered? (*Chartered Accountants.*)

44. Distinguish between a general and a specific legacy. In the event of abatement, has the one any advantage over the other? (*Chartered Accountants.*)

45. Name three different classes of legacies, and briefly explain each. (*Chartered Accountants.*)

46. Describe the following offices in respect of the estate of a deceased person: Executor, Administrator, Trustee, and state briefly under what circumstances and by whom they are severally appointed (*Chartered Accountants*)

47. Explain the following terms: Administration *de bonis non*; Net Personalty; Real estate (*Central Association Accountants.*)

48. Set out in order the course of the principal duties of an executor, and say when and how he may get his release. Under what circumstances and to what extent, is he justified in carrying on the testator's business? (*Incorporated Accountants*)

49. A testator dies on October 19, 19.., leaving among his assets 200 Ordinary £1 shares in Allgood & Sons, Ltd. On the following August 28th a dividend was paid on these shares in respect of the year ended June 30th at 6 % less tax.

Apportion the dividend, treating the shares as an authorised security.

50. A portion of a trust property consisted of a Mortgage of £2,000 at 6 % on cottage property. Interest on the Mortgage had been paid regularly up to December 31, 19.., after which default was made The trustees, exercising their powers under the Mortgage, foreclosed, and the property was sold on September 30th, in the following year, for £1,850

You are required to show the Mortgage Account after realisation, and how you arrive at the apportionment as between Capital and Income. Ignore Income Tax (*Chartered Accountants.*)

51. Who are included in the expression "next of kin," and in what order are they entitled to claim administration of the estate of a deceased person? Is such order liable to be varied? (*Incorporated Accountants.*)

52. An executor, having paid all the testator's debts of which he had knowledge, has distributed the estate. Shortly afterwards a creditor, of whom the executor had not heard, presents a claim to him. Is the executor liable to pay the debt? If not, what remedy has the creditor? (*Incorporated Accountants.*)

53. What is a *donatio mortis causâ*? What circumstances are requisite to the validity of such a gift, and in what respect does it (*a*) resemble, (*b*) differ from, a legacy? (*Incorporated Accountants.*)

54. A died intestate on May 1, 19.., leaving a widow, a son, a daughter, and two grandchildren, who were the children of a deceased daughter. The estate consisted of personalty and realty which, after payment of all funeral and testamentary expenses, amounted to £17,500 and £4,500 respectively. Show how the property would devolve and what each beneficiary would receive. (*Chartered Accountants.*)

55. A has died intestate, leaving as his only relations a wife, mother, C and D, his only sons, and E and F, sons of his deceased daughter G. During his lifetime A made advancements to C of £2,000, and to D of £1,000. A's property consists of personal estate of the value, after payment of all debts and liabilities, of £10,000. Who is entitled to letters of administration? How should A's estate be distributed? (*Incorporated Accountants.*)

56. Explain the following **expressions**: ***Devastavit***; Equitable assets,

Executor according to the tenor; Administration *cum testamento annexo*; Account on the footing of wilful default (*Incorporated Accountants.*)

57. What is a Residuary Account? By whom is it to be rendered, and to whom? (*Incorporated Accountants.*)

58. You are instructed to audit the books of an executor at the end of the first year from the testator's death. The estate consisted of: Freehold Property; Leasehold Property; Mortgages, War Loan; Railway Shares (Ordinary and Preference); Half-share in a Manufacturing Business; Life Assurance Policy; Furniture; and Cash at the Bank.

Briefly describe the audit you would conduct, and the sources from which you would expect to obtain the necessary information. (*Chartered Accountants.*)

59. A testatrix, whose total property chargeable with Estate Duty amounted to £24,500, left the following legacies: (*a*) To her husband, £5,000, (*b*) To each of three children, £5,000; (*c*) To her sister, £1,000; (*d*) To her godchild (a stranger in blood), £1,000.

Show how these legacies, when paid, should appear in the executor's books. (*Chartered Accountants.*)

60. At what rate is interest chargeable on Estate Duty? For what period, and how, would you deal with it in preparing executors' accounts? (*Chartered Accountants.*)

61. When conducting the audit of an executor's books, you find that certain shares held by the testator in limited companies have not been transferred into the name of the executor, although probate has been registered with the companies concerned.

Do you consider this a satisfactory position from your point of view as auditor? (*Chartered Accountants.*)

62. Set out the headings (i.e. titles) of ten Ledger accounts that you would expect to find and that are typical of an executor's Ledger. (*Chartered Accountants.*)

63. Submit a *pro-forma* Estate Duty Account, and explain how the particulars contained therein are utilised to open a set of executorship books upon the double-entry principle.

64. You are instructed to audit the final accounts of an executor. You find that all the estate has been realised and distributed, and that all debts, of which the executor appeared to have knowledge, have been paid. During the course of your audit the executor reports that he has just received a claim from a creditor of whom he had no previous knowledge. He asks your advice as to how he should deal with the claim, and what, if any, his personal liability may be. What advice should you give? (*Chartered Accountants.*)

65. When conducting the audit of the accounts of an executor at the conclusion of his first year of office, you find that the existence of certain bearer bonds has been discovered since probate was obtained. Upon calling the executor's attention to this, he states that he intends to rectify the Estate Duty Account by means of a corrective affidavit.

Explain the nature of this document, and state how it will rectify the omission referred to above. (*Chartered Accountants.*)

66. Briefly describe the documents you would require and the method you would adopt in opening a set of estate books on behalf of the executors and give your reasons for the system you adopt. (*Chartered Accountants.*)

67. A died on March 1, 19... Part of his estate consisted of £5,000 5 % War Loan, in the form of Bearer Bonds, which was valued for Estate Duty purposes at 101½ *ex div.* You are required to show the Ledger account of this stock, including the interest paid on June 1, 19.., bringing down the balance on the account. (*Chartered Accountants.*)

68. A died intestate on January 1, 19.., leaving an estate consisting of realty and personalty.

How would his property devolve: (1) If he left a widow, a son, and a

daughter; (2) if he left a widow only and no blood relation? *(Chartered Accountants.)*

69. Which do you prefer—the two-column or three-column system for executorship accounts? Give your reasons. *(Incorporated Accountants.)*

70. Give the rulings for Cash Book, Ledger, Rent Roll and Journal in executorship accounts, and write up the following entries: Testator died December 31, 19... 19 .. January 31st. Cash received for six months' interest on £10,000 Mortgage at 5 % per annum to January 31, 19. , £235 8s. 4d. January 10th. Cash received for one quarter's rent to Christmas 19 . on B Warehouse at £2,000 per annum (tax deducted once a year from rent due Lady Day), £500. March 31st Final Dividend at the rate of 20 % per annum (free of tax) on £1,000 in Ordinary Shares of the X Y Gold Mining Company for the six months ended March 31, 19.., making 15 % for the year. Six months' interim dividend at 10 % per annum paid to previous September 30th, £100. Loss on realisation of mortgaged property (total amount due being £1,000 principal and £47 1s. 8d. interest), £100. Amount realised, £947 1s 8d. *(Incorporated Accountants.)*

71. Prepare, with imaginary figures, a Balance Sheet of the estate of a testator for submission to the beneficiaries, which, without subsidiary accounts, will show the whole of the dealings with the estate by the executors. *(Incorporated Accountants.)*

72. What books would you recommend should be kept by an executor in respect of an estate consisting of. (*a*) Three freehold properties let for 99 years on ground rents; (*b*) two large blocks of residential flats held on lease and sublet to, say, 100 tenants; (*c*) sundry investments in stocks and shares? The income is directed to be divided quarterly. Show ruling of Ledger, giving an example of one of the share investment accounts. *(Chartered Accountants.)*

73. You are requested to prepare the Income and Expenditure Account of an estate for the year following the death of the testator, showing the amount payable for that period to the life tenants. State to what points you would give special attention. *(Chartered Accountants)*

74. Prepare an Estate Account and Balance Sheet from the following particulars: The testator died in 19. . The executor was able to close his account two years later, and instructs you to prepare a Statement showing how he had carried out his duties The testator left investments which had cost £7,800, and realised £4,640. There were insurances on his life of the face value of £3,000, the bonuses on which amounted to £500. There was cash at the Bank £450, and in house £10. The latter was spent in sundry expenses between the date of death and the funeral. The furniture, valued at £380, was left to the widow, together with a legacy of £5,000. The residue of the estate was bequeathed to charities. The executor had disbursed £594 in Estate Duty and in legal and other expenses. *(Incorporated Accountants)*

75. The late Henry Smith left property as follows: Leaseholds (subject to Mortgage of £7,000), £27,000; Cash in house, £7 10s.; Cash at Bank, £1,206 7s.; Insurance Policy, £5,000; Household Furniture, £1,840; Debts due to him, £811; Interest in Business valued at £12,097.

To his widow he bequeathed £20,000, to his nephew he left his interest in the business; to each of his three nieces £1,000; to the Hospital Fund, £500; and the residue to the C B Charity.

His executors realised the estate as follows: The widow took the Furniture as above as part of her £20,000, the Leasehold Property sold for £28,300, the Debts due to the testator realised £740; they paid Estate Duty £2,800; the costs of Sale and other charges amounted to £1,060.

Prepare a Cash Account and an Estate Account showing exactly the disposition of the estate by the executors when the wishes of the testator had been complied with, the mortgage having been paid off and the life policy realised. *(Incorporated Accountants.)*

76. A B died on August 31, 19... His estate consisted as follows: £10,000 L.M. & S. Consolidated $2\frac{1}{2}$ % Preferred Stock at $67\frac{1}{2}$; £5,000

Vickers, Son & Maxim, Ltd., 5 % Preferred Stock at 107½; £10,000 2½ % Consols at 57; £3,000 advanced on Mortgage to Henry Jones at 4 %, interest payable half-yearly May 31st and November 30th—interest paid to May 31, 19..; £1,250 Life Policy and Bonuses in the Equitable Life Assurance Society; £500 Household Furniture and Effects, bequeathed to wife absolutely; £50 Cash in house at date of death; £700 Cash at Bank on current account.

A B left a widow and five children (three sons and two daughters). During his lifetime he had made advances to his sons as follows. Eldest son, £300; second son, £600, and third son, £100; and he directed that these sums should be considered as debts due to his estate

The debts due at death amounted to £300, and funeral expenses £50.

Make out a statement showing the net value of the estate for Estate Duty purposes, and show what amount would be payable supposing the affidavit was presented on November 30, 19... (*Chartered Accountants.*)

77. John Berrie died on January 31, 19.., and left the following property, etc, viz.: Freehold House and Land, valued at £3,600 (mortgaged for £2,400 at 4 % interest per annum, paid to December 31, 19..), £5,000 2½ % Consolidated Stock, quoted at 56–58; £2,000 India 3 % Stock, quoted at 64–65; £4,000 Assam-Bengal Railway 3 % Stock, quoted at 78½–79½; £1,500 Metropolitan Consolidated 3 % Stock, quoted at 72–74; Insurance Policy for £2,000 on his life; Household Furniture, etc., valued at £500; Cash at Bank, £300; Cash in the house, £20; £1,000 Loan at 5 % per annum (half-year's interest, to December 31, 19.., had been received by the testator); Other Debts due to him, £350; Liabilities, £200; Funeral Expenses, £35.

Prepare the Estate Duty Account showing the amount of duty payable. The affidavit was delivered on March 31, 19... Ignore Income Tax. (*Chartered Accountants.*)

78. O Z D died in 19... By October 31st, two years after death, his executors were in a position to prepare a final Statement of Accounts, and instructed you to undertake the work. As the estate was realised the money had been invested in Exchequer Bonds, and the interest, £1,587, paid to the widow.

The following are the figures and particulars with which you have to deal: Cash in house at date of death, £7 10s.; Cash at Bank, £525; Furniture and Effects sold for £1,500; £20,000 2½ % Consolidated Stock realised at 68½; £15,000 Ordinary Shares of £1 each in a private limited company realised at 13s. each; a Debt due to the testator of £2,000, on which was a first and final dividend paid of 4s. in the £1; Share of Capital in Business after adjusting profits to date of death, £17,800.

The executors had paid duty and interest, £2,722, funeral expenses, £62, had discharged debts amounting to £683 10s., and legal and other charges, £315. (*Incorporated Accountants.*)

79. J B died on October 31, 19. , and left the following estate: Cash in house, £5; Cash in Bank, £1,100; Furniture, £500; Life Insurance (received December 1, 19..), £1,000; Capital and Goodwill of Business, £10,000, Share of Profits to date of death, £1,000: Leasehold Property, let at £300 per annum, £5,000 (rent, receivable June 30th and December 31st, received to June 30, 19 ., subject to payment of Ground Rent £50 per annum, payable June and December, paid to June 30, 19..), £1,000 6 % Preference Shares in the Blank Aeroplane Company (dividend for year ended December 31, 19.., received on February 1, 19 .); £1,000 4½ % War Loan (interest payable on December 1st and June 1st).

The Debts owing by testator amounted to £250; the Funeral Expenses to £50; and the Testamentary Expenses to £1,750.

The whole of the income was left to the widow for life. The rents, dividends, and interest were regularly paid on the due dates, and the liabilities were discharged by December 31, 19...

The Capital and Goodwill of the Business, together with the accumulated profits, were, according to the terms of the will, left in the business, interest at 5 % per annum being paid on June 30th and December 31st.

In calculating Interest and Dividend, ignore Income Tax

Draw up Income Account and Balance Sheet as on October 31, 19...
(Incorporated Accountants.)

80. John Joyce died on March 31, 19... The estate consisted of the following: Bickton Brick Company, Ltd., 5 % Debentures, £5,000; Cut Diamond Mining Company, Ltd., 4,000 6 % Preference Shares at £5 each, £20,000; Furniture and Household Effects valued at £1,000; Debts due by testator, £400; Cash at Bank, £2,000, Debts due to testator, £300; Funeral Expenses, £50.

All dividends and interest were received on the usual quarter days. Ignore Income Tax. The Income is to be apportioned as to four-ninths to the widow and five-ninths equally between two daughters. All creditors were paid on April 30, 19.., and all amounts due were received on that day.

Write up the accounts to September 30, 19.., showing testamentary duties which were paid on April 30, 19... *(Central Association Accountants.)*

81. Martin Chuzzlewit died on January 1, 19. , leaving you sole executor of his estate, which consisted of the following Railway Stock, £30,000 at 4 %; Municipal Loans, £20,000 at 3½ %; Furniture, £700, Jewellery, £400

Debts due by the testator amounted to £200 The dividends on the Railway Stock were received on February 28th and August 31st. The interests on the Municipal Loans were received on June 30th and December 31st. Income Tax to be deducted at 1s. in the £1

The Railway Stock realised £27,000, and the Municipal Loans par.

Expenses of administration amounted to £200, and funeral expenses £60. The debts due by the testator were paid on May 4th.

For the purposes of this question you may ignore Estate and Legacy Duties

The whole of the estate to be realised and the proceeds divided equally between Wilkins Micawber and Uriah Heep.

(a) Describe your procedure as executor from the date of the death to the time when you complete your trusteeship on December 31, 19...

(b) Show Capital and Income Accounts as submitted to the legatees on that date. *(Incorporated Accountants.)*

82. A B dies June 30, 19.., leaving his widow as life tenant. The will gives no instructions as to investments. The estate consists of: (a) Partnership interest in a business, valued at £5,000, which was paid to the executors in cash; (b) Mortgage of £4,000 at 4 %, on which 1½ years' interest was due at date of death; (c) 1,000 Shares of £1 each, fully paid, in K. & Co, Ltd., on which an interim dividend of 40 % had been paid in respect of the half-year ended March 31st. And the following transactions took place: (1) The business was on October 1st converted into a limited company, in which the executors invested £5,000 in 7 % Preference Shares at par, and a six months' dividend was received March 1, 19 . (2) On December 31st the executors foreclosed on the Mortgage and realised £3,672. (3) Final dividend in K. & Co, Ltd., of 10 % in respect of half-year to September 30th was received on October 25th, and shares sold on October 31st for £1,250.

On March 1st the year following £4,500 India 3 % Stock at 75 was purchased

Show how these entries should be recorded in the Ledger, and draw up Income Account for the year ended June 30, 19. . Comment on the transactions. *(Incorporated Accountants.)*

83. John Brown died on December 5, 19.. He bequeathed the residue of his estate to his son and daughter in equal shares, but directed his trustees to retain the share of his daughter upon trust, to pay only the income thereof to her for life. The Estate Affidavit showed that the estate consisted of: Cash at Bank, £200, Household Furniture, £250 (bequeathed to daughter); Leasehold Property, £1,750 (bequeathed to son, subject to the mortgage); £10,000 Consols at 57, £7,500; Life Policy, £3,000, Capital in Partnership of John Brown & Co., £1,000

The debts due by the deceased were £400, and there was a mortgage of £750 on the Leasehold Property The executors collected the cash at

Bank and the amount payable under the Life Policy. They also received the dividends on Consols, and were repaid the capital of deceased in John Brown & Co., together with his share of the profits for the year ending December 31, 19.., £250. The interest received from the temporary deposit of cash covered the executorship expenses. The debts were paid; and the funeral expenses and death duties (together £689 4s 9d.) were also paid. On April 6, 19 ., the executors, being in a position to distribute the estate, appropriated, in satisfaction of the daughter's share in the corpus, such portion of the investment in Consols (taken at 58, the market price at that date) as was necessary for that purpose. The balance of Consols, taken at the same valuation, was transferred, on the same date, to the son, on account of his share, the balance due to the son and any income due to him and the daughter being paid to them in cash.

Prepare an account showing the distribution of the estate, and show the respective amounts of Consols and cash allocated and paid to the son and daughter. (*Chartered Accountants.*)

84. William Smith died on August 31, 19 ., at 9 a.m., and his wife, Mary Smith, died on the same day at 9 p.m. They had six children—three sons and three daughters—all of whom survived them, and were over twenty-one years of age.

(1) William Smith by his will left to his wife an immediate legacy of £500, and a life interest in the whole income of his estate, with remainder to his children equally.

(2) During his lifetime he had placed in trust certain Leasehold Property valued at £2,500, the income from which was to be paid to himself during his lifetime, and on his death to his wife, and, on the death of both of them, the property to go to his three daughters in equal shares as tenants in common.

(3) A friend of William Smith, named Henry Jones, had left a sum of £5,000 in trust for William Smith; and, on his death, for his wife, with remainder to their three daughters in equal shares.

(4) Mary Smith, by her will, left one-fourth of her estate to her three sons equally, and the other three-fourths to her three daughters equally.

(5) Under the will of Mary Smith's father, who died in 1920, certain furniture, valued at £500, had been left to her for life, and at her death to her three daughters in equal shares. Succession Duty had been paid on this by her father's estate.

The estate of William Smith amounted to £20,000, and of Mary Smith to £3,000, both exclusive of the above Trusts (2) and (3).

In preparing the Estate Duty Accounts of the estates of William and Mary Smith, how should the above matters be dealt with?

What amount of Estate Duty would be payable in each case, and what difference would it have made if Mary Smith had died at 9 a.m. and William Smith at 9 p.m. on August 31st? (*Chartered Accountants.*)

85. Henry Robbins died on March 25, 1930. The Estate Duty Account, sworn in May 1930, showed net personalty amounting to £18,272 and realty amounting to £2,700. Duty was assessed thereon at 8 % with interest for 50 days.

On December 17, 1930, a Corrective Affidavit was made to bring into account the following adjustments:—

(*a*) Testator at the time of his death owned 300 shares in Spanish Castles, Ltd., valued for probate at $3\frac{7}{8}$. It was subsequently discovered that this quotation was in fact *ex div.*, the dividend of 2s per share, free of tax, being payable on March 28, 1930.

(*b*) A book of National Saving Certificates worth £57 5s. 6d. on March 25, 1930, was discovered in June.

(*c*) The District Valuer having objected to the valuations of the real estate, this was amended and finally agreed to £3,300

(*d*) A claim for refund of Income Tax for 1929–30, amounting to £39 10s. 0d., was admitted and paid in August 1930.

(*e*) The Estate Duty Account included £5,000 Mexican Railway Bonds, valued at $7\frac{1}{2}$. This was found to be a typist's error on a statement from the bank. The actual figure was £500.

(*f*) A debt for a Tailor's Account £17 10s. 0d. had not been included in the Estate Duty Account and the medical attendant's bill £57 15s. 0d. had been estimated at £30.

You are required to prepare the Corrective Affidavit and to calculate the amount of additional duty (including interest) payable. (*Chartered Accountants.*)

86. Z, a widower, left by his Will the residue of his Estate in trust for his children K, M, and N, in equal shares. Each child was to receive his share of the income until reaching the age of forty, or marrying, when his share of the capital fund was to be ascertained and paid over.

Z died in April 1930, at which date K was aged 25, M 23, and N 18, and the following is a summary of the balances standing in the Estate Books on April 30, 1931.—

	£ s. d.	£ s. d.
Estate Account (as valued for Probate)		46,198 10 9
Investments retained (as valued for Probate)	24,482 13 9	
Investments purchased	11,459 11 9	
Profit on Investments sold		214 3 1
Estate Duty	6,467 15 11	
Interest thereon	68 14 7	
Testamentary Expenses (Capital)	623 4 6	
Testamentary Expenses (Income)	17 3 0	
Debts due to Testator, not yet received	200 0 0	
Dividends received (Capital Apportionment)		377 3 8
Dividends received (Income Apportionment)		1,475 9 2
Interest on Overdraft	14 8 7	
Deposit Interest		19 10 0
Income Tax on Bank Interest and War Loan Interest (Income Apportionment)	23 12 6	
Legacies and Legacy Duty	3,592 10 0	
Payments for N's maintenance and education	305 14 6	
Profit on Sale of Furniture and Effects		92 7 3
Cash at Bank	1,121 14 10	
	£48,377 3 11	£48,377 3 11

You are required to prepare Accounts showing the position as on April 30, 1931 (*Chartered Accountants.*)

87. John Jones by his Will left the following legacies (all free of legacy duty) —

£1,000 to his brother X.

£500 to his friend Y.

"My holding of £3,000 5 % War Loan" to his sister Z.

Jones died on January 31, 1929. The legacy to X was paid on September 1, 1929, and the War Loan was transferred to Z on the same day.

Y, however, had emigrated to Australia, and efforts to trace him failed until early in 1930, his legacy being paid on January 31, 1931.

You are required to state what each of the legatees is entitled to receive. (*Chartered Accountants.*)

88. A. Howard died on January 31, 19.., leaving the following estate: Railway Ordinary Stock, £5,000, valued at 85 %; Railway 3 % Preference Stock, £10,000, valued at 77 %, Railway 3 % Debenture Stock, £8,000, valued at 80 % (interest payable January 1st and July 1st); Loans on Mortgage at 4 %, £10,000 (interest due March 25th and September 29th); Chief Rents, £85 a year, valued at 25 years' purchase (interest due March 25th and September 29th); Life Policies, £5,000; Household Effects, valued at £1,500 Debts due by testator, £150.

He left £250 each to his two executors, £250 to a nephew, and £3,000 to charities, all free of duty, and the residue of the estate in moieties to his son and daughter.

The Railway Ordinary Stock was sold on March 1st (immediately after the receipt of the final dividend for 19. , at 5 % per annum, the interim dividend in August 19 . having been at the rate of 3 % per annum) at a profit of £250; the Life Policy money had been received, and £1,520 had been realised from the sale of the Household Effects.

Assume the receipt of all interest and dividends on investments as they became due, and also that Estate and Legacy Duties, debts owing, and funeral and executorship expenses (£500) had been paid by September 30th.

Write up the books, and prepare Corpus and Income Accounts on that date.

Ignore Income Tax. (*Chartered Accountants.*)

89. A B died on July 1, 19.., and left estate as follows: Cash at Bank, £743; Cash in hand, £12 10s; 60 4 % Debenture Bonds of £100 each in the Spinners' Company, £6,000; Household Furniture, valued at £1,500; Capital in A B as limited partner, bearing 6 % interest, £15,000; Freehold Land, etc., valued at £110,000; Leasehold Properties, £7,000.

The administrators of his estate were empowered under the will: First to pay the liabilities, including Estate Duty, amounting under all heads to £7,080, and then to distribute the balance as follows: One half-share to his son George, and the remainder to a charity to be founded bearing his name, for the benefit of widows and orphans in the town in which he was born.

The Debenture Bonds were sold at a premium of £2.

The Household Goods realised net £1,200.

The money in the business could not be drawn out without loss, so the son consented to treat it as part of his inheritance.

The Freehold Property proved for the most part to be unsaleable, but a portion was sold for £25,000.

The Leasehold Properties were transferred to the trustees of the charity.

Draw up a full statement showing the position as at the end of the first year when the above transactions were completed.

No income is to be dealt with.

Do not make any Journal entries. (*Incorporated Accountants.*)

90. The late George Robinson left estate as set out below. He bequeathed £15,000 to his widow, £5,000 to each of his three daughters, and the residue to his son. You are required to prepare and certify an account which the executor can produce to the beneficiaries showing in detail the money received and paid, supplementing the figures given where you think it advisable or necessary

Cash in hand, £8; Cash at Bank, £1,706 10s; Furniture sold for £1,490, £17,500 L.M.S. Railway Consolidated Ordinary Stock realised £22,369 19s. 6d.; £5,000 G.S. Railway Preferred Ordinary Stock realised £5,791 14s. 3d; £7,000 London General Omnibus Company, Ltd, 4 % First Debenture Stock realised £6,511 9s. 3d; Debts due by Testator, £340; Executorship Expenses, £89 3s. 4d.; Funeral Expenses, £44 9s., Estate Duty, *nil*; Succession Duties, *nil.* (*Incorporated Accountants.*)

91. The following is the estate of X Y Z, who died on January 25, 19..: Cash in house, £5; Cash at Bank: Current Account, £712, on Deposit, £17,800; Household Effects, £1,350, Leasehold Property, held on a ninety years' lease from 1847, and let at £300 per annum, valued at £3,500; Real Property, let on a yearly tenancy at £120 per annum, valued at £1,900; Equitable Life Society Policy, £5,000; Bonus accrued, £425; Loan due to Testator, £130.

The testator owed debts amounting to £78, and his funeral expenses were £33 10s. The rent of the Leasehold Property to December 25th had not been paid at the date of death, but was received by the executor; the rent of the Freehold had been received. The loan of £130 was irrecoverable

£1,900 was paid in duties, and £180 in legal charges. The testator bequeathed the properties to his daughter, the furniture to his widow, and

directed the residue to be divided equally between his daughter and widow The estate was closed for distribution three months after death. Prepare Estate Account, and make the necessary adjustments, including the distribution. (*Incorporated Accountants.*)

92. J B died on March 1, 19 ., and left the following estate: Freehold Property, £8,000; Loans on Mortgage, £4,000, Capital in Business, including Goodwill, £3,000; Bank Shares (30 shares of £20 each fully paid) valued at £930, Industrial Shares (1,500 of £1 each) valued at £1,215; Household Furniture, £400, Cash in Bank, £50, Rent due at date of death, £90; Interest accrued on Loans, £30

The liabilities at date of death amounted to £50, and the funeral expenses were estimated at £20.

The Testamentary Expenses amounted to £995, and the Funeral Expenses to £25.

The testator left an annuity of £400 with the use of the furniture to his widow, and the balance of income to his three children (aged 26, 23, and 21), with instructions that the income of each child was to be held in trust until the age of 25 years was attained.

The following is an account of the executor's receipts during the first year: Rents of Property, £438; Interest on Loans, £150, Dividend on Bank Shares (half-year to June 30th), £27; Dividend on Industrial Shares (half-year to June 30th), £33 15s.; Dividend on Industrial Shares (half year to December 31st), £33 15s.; Sale of business and Goodwill, £3,500; Interest on the above Sale price from date of death, £125; Bank Interest, £8 10s.

The repairs to property amounted to £65, and painting cost £15. These accounts were paid.

The executor had invested £2,000 in War Loan, discharged all the liabilities; paid to the widow £300 on account of her annuity, and paid to the eldest child £100 on account of Income.

Ignoring questions of Income Tax, prepare Income Account and Balance Sheet as at March 1, 19.., and draft a report on the accounts for the trustee, advising him as to his position. (*Incorporated Accountants*)

93. Valentine Smith died on September 30, 19.., leaving estate as follows: Cash in house, £30; Bank Deposit at 4 % (interest payable June 30th and December 31st), £1,000; Bank Current Account, £120; Household Furniture, £500; Life Insurance Policy, £1,000; Freehold Property (net assessment £250 per annum), £5,000; £1,000 War Loan 4½ % (interest payable June 1st and December 1st), £950, £2,000 6 % Preference Shares of £1 each (fully paid and valued for probate at 22s), £2,200 (dividends due February 1st and August 1st).

He also held a mortgage of £3,000 at 4 % on leasehold property, interest being due on December 31st and June 30th

A quarter's rent, £75, on the Freehold Property was due on October 1st.

The Debts amounted to £250, and the Funeral Expenses to £35. Rents, dividends and interests were all received on the due dates, and the Estate Duty, Testamentary Expenses and Debts were all paid on November 30, 19... Testamentary Expenses amounted to £125, and Estate Duty was paid at the rate of 5 % The insurance money was received on November 19.., and the Schedule A Tax was paid on January 1, 19 .

He left the whole of the income to his widow for life

Draw up the Estate Accounts of the Trust to March 31, 19... (*Incorporated Accountants.*)

94. Abraham Hargreaves died on February 28, 19.., leaving a widow and an aged mother. To his mother he left an annuity of £150, and to his widow a legacy of £100 and the residue of the estate.

The estate consisted of: Cash at Bank, £120; Furniture, £200; Railway Stock, £20,000; Freehold Property, £10,000, and Life Insurance, £3,000. The Creditors amounted to £1,250, and the Probate and Funeral Expenses amounted to £1,500. The capital value of the annuity on a 4 % basis was taken as £1,057 for probate purposes. By direction of the testator all investments remained intact. The life insurance money was duly received

and paid into the Bank, and the creditors and expenses were paid off. The shares yielded 5 % per annum, and the dividends were due and received on June 30th each year. Rents accrued due at date of death amounted to £70, and the net income from the property for the three years ended December 31, 19.., 19.., and 19.. was £480, £420, and £460 respectively.

The mother died on November 30, 19.., the annuity having been paid to her quarterly to August 31, 19 ..

Draw up (1) an account showing the position of the Annuity Account, and (2) the final Balance Sheet at the date of the mother's death. (*Incorporated Accountants.*)

95. An estate was proved for probate purposes at £42,000. Within one year of the date of death certain assets were realised and liabilities settled as follows, viz. £15,000 $2\frac{1}{2}$ % A B Stock, valued for probate at 85, realised $76\frac{1}{2}$; Book Debts, valued at £4,000, realised £3,200; the Liabilities, estimated for probate at £6,000, were found to be actually £6,500 (including £105, cost of bringing the body of the deceased from abroad); Stock-in-Trade, valued for probate at £11,620, realised £9,000; £6,000 Debentures, valued at £7,800, were sold at par.

Prepare a statement showing the differences to be included in the "Corrective Affidavit," and the amount by which the Estate Duty would be thereby increased or decreased. (*Chartered Accountants.*)

96. W. Smith (a widower) died on September 30, 19.., leaving the following property:—

	£
Life Policies	6,750
Household Furniture, valued at	500
Freehold Property, valued at	7,500
Cash at Bankers	1,500
Sundry Securities (at market values, September 30, 19.)	12,000
	£28,250

The debts due by him at his death amounted to £600 The funeral expenses were £95, and the legal expenses and duties £1,800. The securities realised £13,000, and the furniture (less expenses) £750. He left pecuniary legacies (free of duty), £750.

He gave the option to his eldest son John of taking over the freehold property at the price of £8,000, which his son elected to do. He left the residue of his estate to his three children equally, but directed them to bring into hotchpot the under-mentioned advances made to them five years previously, viz. John, £3,500; James, £4,250, and William, £2,000.

Prepare an account showing the division of the residue. (*Chartered Accountants.*)

97. John Ryder died intestate, leaving the following estate: Cash in the house, £20, Cash in bank, £150; four Policies for £1,000 each, one of which was taken out for wife's benefit, £4,000, Household Furniture, £500; Value of Share in Partnership Business, £2,500; Birmingham 3 % Stock, £1,000.

He leaves a widow (who administers the estate) and two brothers. Upon each policy it is found that £150 profits had accumulated, the Birmingham Stock realises 101 %, and the remaining estate the values stated. Prepare an Estate Account showing the distribution after allowing £300 for debts due by deceased, £80 for funeral expenses, and making provisions for duties. (*Incorporated Accountants.*)

98. X died in 19 . His estate, after payment of all expenses except Legacy Duty, consisted of: Cash, £15,015, Consols, £1,000, valued at 90, and Furniture, £600.

By his will X left: (*a*) The Consols standing in his name at his death and the furniture to his wife, free of duty, (*b*) £5,000 to his wife; (*c*) £10,000 and the residue of his estate to his son; (*d*) £4,000 to his brother; (*e*) £1,000 to his daughter.

Draw up a brief statement showing the amount each beneficiary is entitled to receive. (*Chartered Accountants.*)

99. The executors under a will prove the testator's estate at £41,000. The testator died October 31, 19.., and Estate Duty at 6 % was duly paid on January 31st next year

It is afterwards discovered that certain of the assets have been over-valued to the extent of £2,000.

What should the executors do in these circumstances, and what amount, if any, can be recovered for Estate Duty overpaid ? (*Chartered Accountants.*)

100. The following figures are taken from the books of the trustees of the will of the late William Lyndhurst as at January 22, 19 ., exactly one year from the date of death : Estate Account, Balance at July 22, 19.., £22,609 ; Debts due at death by Testator, £104 ; Estate Duty Account, £1,379 ; Legacies, £300 , Mortgages on Properties, Cr Account, £17,350 ; Investments Account, £5,358 Freehold Building Land, £7,700 , Leasehold Properties, £5,254 16s. ; Household Goods, Furniture, etc , £890 , No. 4000 Staines Road, £1,478 ; No. 4001 Staines Road, £1,570 ; Dividends and Interest received on Income Account, £1,107 , Rents received on Income Account, £620 7s. ; Interest on Mortgages, Income Account, £799 ; Sundry Expenses, Income, £68 14s. , Testamentary Expenses, £127 16s. ; Law Charges, £198 4s. , Amount of Capital left in Testator's Business, £15,000 Accountants' Charges, £52 10s. , Cash at Bank, £1,926 7s ; Payments to Widow on account of Annuity of £1,000 a year, £500.

The first account was taken at July 22, 19...

The trustees have received from the business £1,000 by way of interest. One-third each of the law and accountancy charges is chargeable against Income.

The household goods are left absolutely to the widow.

The balance of the income is held in trust for the children.

Prepare a Trial Balance, and draft from it accounts showing the position. Open no Ledger accounts. (*Incorporated Accountants.*)

101. Robert Render died on November 30, 19... Under his will George Gunter was appointed executor.

The following legacies were to be paid : George Gunter, for his services as executor, £200 ; Louise Render, niece, £1,000, free of duty ; S. Smith, gardener, £100.

The residue of the estate was to go to the widow.

The following property was left : Freehold House, occupied by the deceased to date of death, valued at £5,000 , Household Effects, valued at £900 ; Local Loans Stock, £5,000, quoted at 65–67 ; Belfast Corporation Stock, £5,000, quoted at 76–78 ; D. H. Evans, Ltd , First Mortgage Debenture $4\frac{1}{2}$ % Stock, £10,000, quoted at 95–96 ; Cash in the house, £20 ; Cash at the Bank : Deposit Account, £3,000 ; Current Account, £850.

The debts due at the date of death amounted to £165. The funeral expenses amounted to £40.

Prepare the necessary Estate Duty Account, and give the amount of duty payable.

The date of the Affidavit was January 1, 19...

102. What is "Succession Duty," and upon what is it chargeable ? Give the rates of this duty, and state in what circumstances it is not payable. (*Chartered Accountants.*)

103. A testator died on December 3, 19... After the payment of Debts, Funeral Expenses, Estate Duty, etc., the estate consisted of Cash, £10,500, and Household Furniture, which was valued for Estate Duty at £500, and which was specifically left to his daughter, free of duty The will provided for the following legacies : Executor, £1,000 (free of duty), Daughter, £5,000 ; Son, £3,000 ; Cousin, £1,000 , two Grandchildren, £1,000 each ; and the residue, if any, to his Son. The executor was the testator's brother. Legacies were paid on February 10, 19...

Show the accounts as they would appear in the estate books, after carrying out the provisions of the will. (*Chartered Accountants.*)

104. A B died on April 8, 19.., and at that time owned 1,250 6 % Cumulative Preference Shares of £1 each in A B & Co., Ltd., upon which no dividend had been paid since August four years earlier, when the full amount had been received by A B in respect of the year to June 30 in that year. During the year ended June 30th following death the Company made profits which enabled it to pay the dividend for that year and all arrears of dividend. How should you deal with the amount received in the executor's accounts? (*Chartered Accountants.*)

105. Robert Riger died on March 31 19... He appointed George Smithson as his executor.

The estate left was as follows · £10,000 Consols, valued at 65; Cash at Bank: Current Account, £200; Deposit Account, £1,000; Cash in house, £35, Household Furniture, valued at £1,200; Policy of Assurance, £1,500; Freehold House (in occupation to date of death), valued at £5,000; Metropolitan Consolidated 3½ % Stock, £5,000, valued at 86; 1,000 Ordinary Shares of £1 each in the Gramophone Company, Ltd., valued at 35s.; Loan on Mortgage at 5 %, £5,000 (mortgagor, C. G. Bell)

The debts due at death amounted to £210, and were paid on May 1st. The Funeral Expenses amounted to £50, and were paid on May 3rd. A loan of £2,000 was obtained from the Bank on April 1st, and repaid on May 15th, 5 % interest being charged for the accommodation.

Probate was obtained on May 1st, and the duty paid

All the investments were sold, and the proceeds received from the stockbrokers on May 14th. The following prices were obtained: Consols 57, *less* £10 expenses, Metropolitan Consolidated Stock 85, *less* £9 expenses; Gramophone Shares 36s., *less* £12 expenses

The loan on mortgage was called in and was repaid on May 3rd. The cash in house and at Bank was paid into the executor's account on May 2nd.

The Freehold House and Furniture were left to the widow absolutely. The Policy of Insurance was paid on May 5th.

Legacies were left as follows: Gardener, £100; Executor, £200, "free of duty"; and £500 to George Riger (brother). Various testamentary expenses, exclusive of duty, were paid on May 28th amounting to £28

Assume that all dividends and interest are payable half-yearly at December 31st and June 30th. Ignore all questions of Income Tax.

The residue of the estate was left to the widow.

Prepare the necessary accounts as they would appear in the estate books. (*Chartered Accountants.*)

106. A died, leaving the following legacies: (1) His Household Furniture (valued at £600) and £1,500, "part of my deposit at the London and County Bank," to his wife. (2) £500, "part of my deposit at the London and County Bank," to his daughter. (3) £500 to each of his three sons.

A's estate, after payment of debts, duties, and expenses, consisted of the following. (1) Cash at Bankers, £2,000; (2) Deposit at London and County Bank as at the date of testator's death, £1,500; (3) the Household Furniture (valued as above).

Set out the "Legacies Account" which should appear in the Executors' Ledger upon the division of the estate (*Chartered Accountants.*)

107. An executor is directed by the will of a testator to pay an annuity of £100 per annum out of the income arising from £3,000 5 % War Stock which for Estate Duty purposes was valued at 95 This Stock, the interest upon which was payable upon June 1st and December 1st, formed part of the balance of the estate of £15,050.

You are required to show how the executor should record the interest received on this Stock on June 1, 19.., and the payment of the amount then due to the annuitant in the books of the estate. (*Chartered Accountants.*)

108. An executor finds, after paying all debts of the testator, that the estate is not sufficient to satisfy the legacies directed by the will.

Show how the balance available should be distributed, taking an assumed case in which there are directions: (*a*) To pay an annuity; (*b*) to pay a legacy

free of duty; (c) to pay legacies to the widow, to a son, to a sister, and to strangers in blood. (*Chartered Accountants.*)

109. A testator, who died on September 15, 19.., directed by his will that one-half of the income of his estate should be paid to his widow, and one-half to be divided equally between his three children. At the date of death the Cash at Bank was £1,242, and Cash in the house £25.

The following amounts were received and paid by his executors to December 31, 19.. · 19... October 2nd. Received one quarter's rent (less second instalment of Schedule A, £27) on Freehold House, let at £180 per annum, due at Michaelmas. Received half-year's interest on £1,000 5 % Exchequer Bonds (received gross). October 5th. Received one quarter's interest on £2,000 India $3\frac{1}{2}$ % Stock. November 8th. Received dividend at $7\frac{1}{2}$ %, less Income Tax, on 1,000 £1 Ordinary Shares in a limited company for the year to June 30, 1919. Paid Testamentary Expenses, £90; Debts due at death, £127; and Funeral Expenses, £60. November 15th. Received proceeds of sales of shares in limited company above mentioned, £1,300. Received from the remaining partners in testator's business the amount of his capital therein, £17,000, with interest at 5 %, less Income Tax, from date of death. Placed £18,300 on Deposit at Bank at 3 %. December 1st. Received half-year's interest on £5,000 5 % War Loan (received gross). December 3rd Paid Legacies directed by the will: Widow, £1,000, free of duty, Sister, £500; Executors (one a brother and one a stranger in blood), £100 each Central Hospital, £100, free of duty. December 5th. Paid Estate Duty, £3,204, and interest on Personalty Duty, £25 10s. Paid Legacy Duty. December 15th. Withdrew from Deposit at Bank the above amount, and received accrued interest thereon. Invested the balance of the Corpus in Bank of England Stock at 170 (ignore brokerage). December 27th. Received one quarter's rent of Freehold House, £45, less £7 10s. for repairs. December 31st. Paid shares of income to widow and children.

You are required to write up the Cash Account and the Income Account to December 31, 19 .. (*Chartered Accountants.*)

110. John Jones died on April 30, 19.., leaving the following estate · Cash in house, £27; Cash on Deposit at Bank, £5,000; Cash on Current Account at Bankers', £550, Household Furniture, valued at £2,000; Mortgage at 4 % of Leasehold Premises to secure £4,000 (six months' interest fell due on June 30, 19..); £8,000 Consols $2\frac{1}{2}$ %, £4,450; £4,000 Arcadia 4 % Loan (half-year's interest payable on June 30, 19..), £3,700; Debts due to Testator, £1,900; Life Policies and Bonuses, £6,000; Sundry Creditors, £100.

You are required to write up the books and to make out a Balance Sheet at October 31, 19.., ignoring Income Tax and Interest on Bank Deposit.

The widow was to have the use of the furniture for life and an immediate legacy of £1,000, which was promptly paid.

Funeral Expenses and Testamentary Expenses amounting to £75 and £1,500 respectively had been paid, and the liabilities discharged before October 31st.

The Life Assurance moneys had been received, as also all interest due on investments, and the debts had been collected with the exception of £150, which had proved bad. (*Chartered Accountants.*)

111. A testator died on June 30, 19.., leaving as his principal asset certain freehold land, and having a large overdraft at the Bank. He directed that an annuity of £500 be paid by his executors to his widow, the balance of income to be distributed equally among his three daughters. If in any year the income was not sufficient to pay the annuity, resort was to be had to capital for the purpose of making the necessary payment.

Up to June 30, 19.., the annuity had been paid regularly for six years, but no distribution of income made. No accounts had been kept by the executors other than a Cash Book, in which no distinction was made between capital and income.

At the last-mentioned date the executors instruct you to prepare an account of the income for the whole period in order to see whether there is any balance available for the daughters.

Submit the account you would prepare, ignoring Income Tax, assuming the following to be the figures relating thereto appearing in the Cash Book.

	Receipts.		Payments		
	Rents.	Dividends	Rates, etc	Bank Interest.	Expenses.
	£	£	£	£	£
Year to June 30—19..	410	60	130	220	7
19..	410	60	140	270	3
19..	180	80	85	210	Nil
19..	180	140	80	170	1
19..	70	480	25	95	Nil
19..	Nil	590	Nil	Nil	Nil
19..	Nil	590	Nil	Nil	Nil

(*Chartered Accountants.*)

112. A, who had a life interest in the estate of B, died on December 15, 19.., and C then became entitled to the estate.

You are required to show to whom the following sums, which were received by the trustees of B's estate, would be payable, ignoring Income Tax · 19... December 29th. Dividend on 500 6 % £1 Preference Shares in a limited company for the year ended October 31, 19. 19... January 5th. A quarter's rent of house, due at Christmas, £15. A quarter's Interest on £500 $2\frac{1}{2}$ % Consols. January 25th A final dividend on 1,000 £1 shares in a limited company at the rate of 6 % per annum for the half-year ended December 31, 19 , making 5 % for the year. An interim dividend of 4 % for the half-year to June 30, 19 ., was paid on July 18, 19... (*Chartered Accountants.*)

113. A testator's will includes a bequest to A of a valuable picture, and to B a sum of £100 out of a certain fund of £500 Consols. Subsequently to making the will the testator had disposed of the picture and had sold out the Consols, but was possessed of other free assets of the value of £5,000. What is the position of the two legatees ? (*Chartered Accountants.*)

114. The Ledger balances of the estate of John Thompson, deceased, are summarised as follows :—

	£ s. d.	£ s. d.
Cash in the house at decease		6 19 3
Cash in Bank at decease		1,016 7 1
Proceeds of Life Assurance Policy		5,000 0 0
Debts due to deceased		273 15 1
Estate Duty	3,328 8 7	
Funeral Expenses	50 2 3	
Debts owing by deceased	79 19 10	
Expenses of Executorship	199 2 1	
Proportion of Interest and Dividends on deceased's investments to the date of his death		865 17 2
Legacies	1,213 0 0	
Testator's Investments realised		46,152 16 5
Testator's Investments retained		6,655 12 6
Income received to date		666 17 0
Advance to A on account of his share of the Estate	4,000 0 0	
The like to C	5,000 0 0	
Investments in Stocks and Shares	46,078 12 2	
Cash in the Bank	688 19 7	
	£60,638 4 6	£60,638 4 6

The beneficiaries are A, B, C, and D, who are equally interested both in Capital and Income. Write off for depreciation in value of Investments £1,100 14s. 9d., and show the shares of Capital accruing to each of the beneficiaries. Also divide the Income, after charging A with one-quarter year's interest and C with half a year's interest at 4 % on their advances (disregarding Income Tax). Set out the new list of balances thus arrived at. *(Chartered Accountants.)*

115. A died on February 8, 19 ., and left the following property: Freehold House, in which he was living at the time of his death, valued at £2,000; Household Furniture, etc, valued at £600; £2,500 5 % War Stock, quoted at $93\frac{1}{2}$–$93\frac{3}{4}$; £1,000 $2\frac{1}{2}$ % Corporation of London Debenture Stock, quoted at 54–56; £1,000 $3\frac{1}{2}$ % Dominion of Canada Bonds, quoted at 76–78; 15,000 £1 shares in a commercial company, quoted $3\frac{11}{16}$–$3\frac{14}{16}$ *cum div.*; Cash at Bank, £327; Cash in the house, £8 9s. 6d.

There was a mortgage on the house of £1,000, 5 % interest upon which was payable half-yearly, and was paid to September 30th prior to death.

The Debts due at death amounted to £195, and the Funeral Expenses to £65

You are required to prepare the Estate Duty Account (ignoring Income Tax), and to show the amount of duty payable, assuming that the Affidavit was presented on June 30, 19... *(Chartered Accountants.)*

116. A testator died on May 31, 19.., possessed of the following estate. Freehold Land and House, £5,000; Life Policy and Bonuses, £5,500 (duly received by the executors); Consols, £10,000, valued at 57; Loans on Mortgage at 4 %, £12,000 (interest receivable March 31st and September 30th); Railway Ordinary Stock, £5,000, valued at 94; Railway 3 % Preference Stock, £8,000, valued at 78 (dividends receivable February and August); 4 % Debenture Stock, £15,000, valued at par (interest receivable January 1st and July 1st); Household Furniture and Effects, £2,500; Cash at Bank, £1,000; Cash in the house, £30.

The Debts due at death amounted to £550, and the Funeral Expenses to £110.

Testator left each of his executors, A, his son, and B, his nephew, £250. He bequeathed £1,000 to his widow, £500 to his sister, and £1,000 to the Town Infirmary.

The widow was to have the use of the House and Furniture and the income of the Residuary Estate during her lifetime, after which the estate was to go absolutely to the son.

The Railway Ordinary Stocks were sold in August at 96, immediately after the receipt of the half-year's dividends (at the rate of 4 % per annum).

All dividends and interests were received when due.

All duties were paid, and £250 legal expenses.

The widow died on December 31st, all income having been regularly paid to her as received.

Prepare Estate Revenue Account, Estate Capital Account, and Balance Sheet as on December 31st.

Ignore Income Tax and Bank interest. *(Chartered Accountants.)*

117. A B, a client of yours, who was not a relation, died on January 1, 19... Under his will you were appointed sole executor. Particulars of his estate are as follows: Industrial Ordinary Shares, £52,000; Colonial Government Loans, £15,000 (interest rate 4 %); Furniture and Personal Effects, £1,200; Cash at Bank, £726; Freehold House, valued at £3,000, mortgaged for £1,500 at 5 % (interest payable February 1st and August 1st). The half-yearly interest on the Colonial Loans is payable on January 5th and July 5th, for the half years December 31st and June 30th respectively. Assume that the dividend on the Industrial Shares is 8 %, and that it is paid on February 27th for the year ended December 31st previous.

The Debts due by the testator (excluding the accrued interest on the mortgage) amounted to £296, and were paid on January 29th. The Funeral Expenses were £62. The Executorship Expenses were £362.

The Industrial Shares were sold on February 28th, and realised £51,000, and the Colonial Loans were sold on the same day at par. The Freehold

House realised £2,600, and the mortgage was paid off on March 1st. The Furniture and Effects realised £1,282 A legacy of £500 was left to you for your services as executor, and £100, free of duty, was left to an old servant. The residue was to be divided as to two-thirds to B B, and one-third to C B, the testator's brothers Ignore the question of Estate Duty and the expenses of selling the investments. Assume Income Tax at 4s. 6s. in the £1.

Describe your procedure as executor from the date of death to April 8th, when the estate was closed.

Give the accounts you would submit to the residuary legatees, showing the administration of the estate. (*Chartered Accountants*)

118. The beneficiaries, A, B, C, D, and E, of a trust are all minors, with the exception of A, and share equally in the income of the trust. The following is the Trial Balance of the trust as on May 10, 1922. You are required to prepare a Balance Sheet as on that day.

TRIAL BALANCE, MAY 10, 1922.

	£	s.	d.	£	s.	d.
Estate Account				84,300	0	0
Advances to A on account of Income	750	0	0			
Investments on Estate Account	84,300	0	0			
Income from Estate Account				3,970	0	0
Deposit Interest				31	10	0
Investment on Accumulations Account	4,766	0	0			
Income from Accumulations Account				218	8	10
Beneficiaries' Accumulations Account as on May 10, 1921—						
B				567	0	0
C				910	0	0
D				1,505	0	0
E				1,784	0	0
Beneficiaries' Maintenance Accounts—						
B	525	0	0			
C	460	0	0			
D	312	0	0			
E	297	0	0			
Cash at Bank—						
Current Account	375	18	10			
Deposit Account	1,500	0	0			
	£93,285	18	10	£93,285	18	10

(*Chartered Accountants.*)

119. W, who died on August 1, 1929, left his Estate in trust to X for life, then to Y for life, with remainder to Z.

X died on October 1, 1930.

(i) You are required to apportion the following items among the interests concerned, on the basis of the investments in question all being "authorized" under W's Will (any apportionments may be made in months):—

(*a*) £64, being an interim dividend of 2 %, less tax at 4s, on £4,000 L.M.S Railway Ordinary Stock for the year 1929, received August 20, 1929.

(*b*) £80, being the final dividend of 2½ %, less tax, on the above Stock, received on March 5, 1930.

(*c*) £50, being six months' interest due and paid on December 1, 1930, on £2,000 5 % War Loan, purchased by the Trustees on September 1, 1930.

(*d*) £217, being two years' dividend, less tax at 4s. 6d., to June 30, 1930, on 2,000 7 % Cumulative Preference Shares of £1 each in Slow and Sure, Ltd. Dividend on these shares had been in arrear since June 30, 1928, and the dividend now in question was declared and paid in January 1931 out of the profits of the year to June 30, 1930.

(ii) What would have been the position had the Trustees sold the shares in Slow and Sure, Ltd, in December 1929? (*Chartered Accountants.*)

120. W X died on January 1, 19... His estate was as follows: Household Furniture (of which the wife was to have the use during her lifetime), £1,500; Life Assurance Policy, with bonus additions, £6,500; £10,000 $4\frac{1}{2}$ % War Loan, valued at 95, Leasehold House (99 years from March 1, 1910, at a ground rent of £24 per annum, payable half-yearly, March 31st and September 30th), valued at £1,500; 20,000 Shares of £1 each, fully paid, in W X & Co., Ltd., value agreed with the Inland Revenue at 25s. per share, exclusive of dividend (a dividend of 10 % for the year 19.. was declared and paid on February 21, 19..); Cash at Bank, on Current Account, £3,500; Cash in the house on date of death, £100; Debts due by the Testator at death, £400; Funeral Expenses, £50.

Prepare Estate Duty Account, and show the amount payable, the rate of duty being 7 %, and the account being rendered and the duty paid on March 1, 19... Ignore Income Tax. (*Chartered Accountants.*)

121. X died on July 6th, and you are instructed to obtain the necessary particulars for the Estate Duty Account. How would you proceed?

X was a partner in the firm of X & Y, stock and share brokers.

He also possessed a freehold estate, The Elms Farm, Crookham, which he let, and a leasehold house and grounds at Hazelhead, which he occupied.

He had numerous investments in Home and Colonial Government Securities, British and Foreign Railways, and Mining and Industrial companies (*Chartered Accountants.*)

122. John Williams died on January 31, 19.., leaving a widow, and two sons and three daughters, all above twenty-one years of age. His estate was as follows. Cash in the house at the date of death, £25; Cash at Bank, on Current Account, £3,000; Household Furniture and Effects and Motor-cars, £1,800 (exclusive of a cabinet of cutlery and silver, which, under the terms of the will, was to be offered to the eldest son for £40, at which figure he agreed to take it; the cabinet was valued at £30); 10,000 Shares of £1 each, fully paid, in Williams' Stores, Ltd., on which large dividends had been paid for several years. This was a private company, and after negotiations with the Inland Revenue authorities, the value of these shares was fixed at 30s. each; 1,000 Shares of £1 each, fully paid, in the Western Stone Company, Ltd, valued at par; Freehold House, in which he had resided, valued at £3,000; Deceased was Chairman of Williams' Stores, Ltd., his remuneration being at the rate of £600 per annum, which had been paid to December 31st prior to death.

The Debts due at death amounted to £200, and the Funeral Expenses to £60.

Prepare Estate Duty Account, and show the amount payable supposing the account filed on April 30, 19... Apportionments and interest calculations may be made in months, and Income Tax ignored. (*Chartered Accountants.*)

123. A B died on August 31, 19... His estate consisted of: Cash in the house at date of death, £20; Cash at Bank, on Current Account, £300; Cash at Bank, on deposit at 3 %, £3,000; £3,000 L.M & S Railway $2\frac{1}{2}$ % Preferred Ordinary Stock, valued at 74; £2,000 L.M. & S. Railway Deferred Ordinary Stock, valued at 71; £2,500 United Gas Company Ordinary Stock, valued at 130; 60 5 % Cumulative Preference Shares of £5 each in the Great Western Coal and Iron Company, Ltd, valued at 4; £1,500 4 % Debenture Stock of the York and Lancaster Breweries, Ltd., valued at 90, Household Furniture (bequeathed to his wife), valued at £500.

The Estate Duty was (approximately) £600, which was paid out of the Deposit Account on November 30, 19.., when the will was proved. Interest had been received on the Deposit Account to June 30, 19.., by the testator The Debts due at death (£220), Funeral Expenses (£50), and Testamentary Expenses (£200) were all paid out of the Deposit Account on December 31, 19...

Write up the Capital Account of the estate from the above particulars. (*Chartered Accountants.*)

124. A B died August 31, 19.. During the ensuing twelve months the following dividends, etc., were received by his executors: 19... Sep-

tember 15th. United Gas Company, half-year's dividend to June 30, 19.., £125 (less tax). December 31st. Interest on Cash on Deposit at the Bank, £43 (tax not deducted) 19... January 1st. York and Lancaster Breweries, Ltd., Interest on £1,500 4 % Debenture Stock for the half-year ended December 31, 19.. (less tax). February 26th. Dividends on £3,000 L.M & S. Railway $2\frac{1}{2}$ % Preferred Ordinary Stock, and on £2,000 Deferred Ordinary Stock at $2\frac{3}{4}$ % per annum, for the half-year ended December 31, 19.. (less tax) February 26th. Great Western Coal and Iron Company, Ltd., £15 (less tax) on account of arrears of dividend on 60 5 % Cumulative Preference Shares of £5 each, on which no dividends had been paid since the previous June 30th. March 15th United Gas Company, half-year's dividend to December 31, 19.., £125 (less tax). June 30th. Interest on Cash on Deposit at the Bank, £38 (tax not deducted) July 1st. York and Lancaster Breweries, Ltd., half-year's Interest on Debenture Stock (as above, January 1st) August 20th. L M & S. Railway, half-year's Dividends on Preferred and Deferred Ordinary Stock (as above, January 1st).

Write up the Cash Book as regards the above transactions, making the necessary apportionments between Capital and Income. Post up the Income Account, and make the division amongst the beneficiaries, the widow being entitled to one-half and the three children to one-sixth each. (*Chartered Accountants*)

125. John Smith died June 30, 19.., possessed of the following estate (valued for probate). Cash at Bank, £10,000; Cash in house, £523 15s. 2d.; £20,000 $2\frac{1}{2}$ Consols at 56 (*ex* dividend), £11,200; Leasehold House, £2,000; Household Furniture and Effects, £750; Other Investments (*cum* dividend), £116,000

The debts due at death were £5,310.

By his will, dated June 1, 19 ., John Smith left his estate as follows: (*a*) £500 each (free of duty) to his executors (A, a stranger in blood, and B, his eldest son). (*b*) £1,000 annuity to his sister C (free of duty), payable quarterly, first payment to be made three months after date of death. (*c*) The residue of his estate in equal shares to his three sons B, D, and E (children of a deceased son to take "per stirpes"), with the stipulation that the sum of £5,000 advanced to his son D on May 1, 19.., must be brought into "hotchpot."

Son E died January 1, 19.., leaving two children, F and G.

The executors proved the will, and on September 30, 19.., paid the Estate Duty

On October 1st the Consols were sold at 57, and the Household Furniture was sold for £700.

The dividends (less Income Tax) on the Consols, due July 5th and October 5th, were duly received and banked.

By December 31, 19 ., the executors had made the following payments: Funeral Expenses, £75; Tombstone, £25, Debts due at death, £5,310; Executorship Expenses (including first instalment of duty payable on sister C's annuity), £720, Executors' Legacies and duties thereon; and two quarterly payments of Annuity (less Income Tax).

In the meantime £2,040 had been received as interest and dividends on Other Investments, of which £1,000 had accrued due at date of death.

Write up the Executor's Cash Book, prepare the following accounts: Estate Account on December 31, 19.., Income Account for six months ended December 31, 19 ; Balance Sheet on December 31, 19..; and give a statement showing the amount due to each of the residuary legatees, assuming that the annuitant died on January 1, 19.., the leasehold and investments realised the amounts stated, and there were no further receipts or expenses except the necessary legacy duties. (*Chartered Accountants.*)

126. X died on May 31, 19 ., possessed of the following estate:—Assets: Freehold Property (let at £600 per annum, payable quarterly, rent received to March 25, 19..), £12,000, Life Policies and Bonuses, £2,500, Cash at Capital and Counties Bank, £10,000; Cash in house, £25; Household Furniture and Effects, £1,000; 4 % Debentures (interest payable June and December; interest received to December 31st prior to death), £4,500, Capital in X, Y, and Z, £15,000; Share of Profits in X, Y, and Z

to date of death, £500. Liabilities: Debts due at death, £600; Mortgage on Freehold Property (interest at 4 %, payable on usual quarter days, has been paid up to March 25, 19..), £3,000.

By his will X left his property as under: To his wife A (an executrix) £50 in cash, his Household Furniture and Effects (both free of duty), and the income from the residue of his estate during her lifetime. To his son B (an executor) £50 in cash and his Freehold Property, both free of Legacy and Succession Duty. To his friend C (an executor) £50 in cash, £500 "Consols standing in my name at the Bank of England," and £250, "part of my Deposit at Parr's Bank." To his son D the capital in the business of X, Y, and Z, free of duty. To his daughter E £5,000, free of duty, and the residue of his estate on the death of her mother.

On August 31, 19.., the executors obtained probate, paid the Estate Duty, the Funeral Expenses (£80), the Debts due at the death and the Executorship Expenses (£177 8s.).

On September 29, 19.., the Mortgage on the Freehold Property was paid off by the executors, together with interest to date. The legacies and the devise were satisfied, and the duties thereon paid.

Assume that the assets realised the amounts stated, the debentures being sold on December 31, 19.., that all income due to the estate has been received, and that on January 1st next the residue of the estate was placed on deposit at the Bank at 3 % interest. Write up the Executors' Cash Book for the year ended May 31, 19 ., set out the Estate Account and the Legacy Account as they should appear in the Executors' Ledger, and prepare an Income Account for the year, and a Balance Sheet.

N.B.—Income Tax is to be ignored, and interest and apportionments may be calculated in months. (*Chartered Accountants.*)

127. R B died on January 31, 1922, leaving a widow and three sons, A, B, and C. He directed that his estate should be held in trust and the income therefrom paid to the widow during her lifetime; and, upon her death, the estate to be divided equally between the sons

On January 31, 1923, the estate stood as follows: Cash in hand, £60, Balance at Bank, £600, £5,000 4 % War Loan (at 95); £8,000 $2\frac{1}{2}$ % Consols (at $57\frac{1}{2}$); Household Furniture, £800; Leasehold Property, £1,500 (let at £70 per annum, rent payable half-yearly on June 30th and December 31st, rent having been paid to June 30, 1924; Schedule A assessment, £60 per annum net); £4,000 3 % Sheffield Corporation Stock (at 80), interest payable half-yearly, March 31st and September 30th The balance of the Income Account due to the widow on January 31, 1923, and paid to her on February 28, 1923, was £300.

The widow died on May 31, 1923, and, on August 31st, the investments were sold at the prices quoted, the Leasehold Property was disposed of for £1,250, and the Furniture for £500.

The income was received as and when due, and the expenses of winding up the estate amounted to £250.

Write up the accounts, and show the division of the estate. (*Chartered Accountants*)

128. William Smith died on January 5, 19.., and left estate as follows: £20,000 Consols (valued at 55), Cash in hand, £50; Cash at Bank, £1,350, £9,000 5 % Debenture Stock in the British Ordnance Company, Ltd (valued at par); Debts due by Testator at death, £150; Funeral Expenses, £30

The Death Duties were paid on April 6, 19.., and, on the same date, Executorship Expenses, amounting to £180, and the Funeral Expenses were paid. The Debts due by the Testator at death were paid on July 6, 19. .

The income of the estate for the year 19.. from investments was £900, less tax (at 5s. in £1).

Prepare the Estate Income Account, showing what was due to the tenant-for-life on January 5, 19... (*Chartered Accountants*)

129. A died on February 28, 19 .. On December 31, 19 ., after payment of all duties, expenses, debts, etc, the estate consisted as follows: Leasehold House, let at £60 per annum to Y (rent payable quarterly on the last day of March, June, September, and December in each year; rent received

as and when due; ground rent £10 per annum, payable half-yearly on March 31st and September 30th, was paid when due); £5,000 L M. & S. $2\frac{1}{2}$ % Preferred Ordinary Stock (dividends payable February 15th and August 15th); £10,000 London & North-Eastern 4 % Debenture Stock (interest payable January 1st and July 1st); £4,000 lent on Mortgage to Z at 4 % (interest payable half-yearly, January 31st and July 31st); 10,000 Ordinary Shares of £1 each, fully paid, in A & Co., Ltd. (dividend for the year 19.. at the rate of 15 %, free of deduction for Income Tax, received February 28, 19..); 15,000 6 % Cumulative Preference Shares of £1 each, fully paid, in A & Co., Ltd. (half-year's dividend to December 31, 19 , received January 1, 19..).

A left a widow, and four sons and three daughters. The widow was entitled to a quarterly allowance of £100, to be paid to her on March 31st, June 30th, September 30th, and December 31st. The Preference Shares and 3,000 of the Ordinary Shares in A & Co., Ltd., were left in trust for the three daughters in equal shares, and the remainder of the Ordinary Shares in A & Co., Ltd., to the sons in equal shares The residue of the estate was left to the seven children equally.

The expenses belonging to the half-year, and chargeable against income, amounted to £21.

Supposing all income received and all payments made regularly when due, write up the Executor's Cash Account for the half-year to June 30, 19.., and divide the income amongst the beneficiaries. (*Chartered Accountants.*)

130. A died on June 30, 19.., leaving the following estate: Cash, £156; Loan to the firm of A & Co., of which his son B is the proprietor, six months' interest at 5 % due and no further interest to be charged unless the winding up of the estate takes more than six months, £12,000; Household Furniture, etc, valued at £370, Corporation Stocks (interest paid to date), £5,000 6 % Stock, valued at 105 %; Liabilities, £310

A directed by his will that, after payment of duties, debts, and funeral expenses, the sum of £2,000 be paid to his cousin C, a sum of £650 be used to purchase an annuity to his housekeeper D, and the residue of his estate be divided between his son and his niece E in the proportions of three-fourths and one-fourth respectively. The funeral expenses, amounting to £100, were paid on July 15th, and the executors paid Estate Duty on August 15th and interest (£2 3s 7d.) on overdraft allowed by the Bank for one month to pay the duty.

The executorship expenses amounted to £38 10s., and on September 12th the Corporation Stocks were sold *cum div.* at 108 % less £25 for commission and expenses, and the Household Furniture, etc., for £402 From the proceeds of these sales the debts and legacy were paid, and a Government Annuity of £50 was purchased for £650, and the Bank overdraft wiped out

On September 30th B paid over to the executors £5,000 on account of the loan, retaining the balance as part of his share of the estate, and on October 15th the Residuary Account was prepared, legacy duties paid, and the estate divided in the proportions named.

You are required to give the entries necessary to record the above in the executors' books. Ignore Income Tax (*Chartered Accountants.*)

131. A testator died on June 24, 19... Under his will he left the residue of his personal estate to his widow for life, and remainder to his son, and he directed the executors to sell the property when they thought it desirable to do so. Part of the residue consisted of leasehold property with 33 years to run from the date of death. This property was valued for probate at £5,000, and produced £550 per annum, subject to a ground rent of £47 10s. per annum payable on the usual quarter days. The property was not sold until July 1922, when it realised £5,350

You are required to show the Leasehold Account for the year following death. Ignore Income Tax. (*Chartered Accountants*)

132. A purchases an annuity on the joint lives of his wife and himself, the annuity to be payable, on the death of either of them, to the survivor.

A dies. How is the amount chargeable with Estate Duty arrived at and how may the duty be discharged? (*Chartered Accountants.*)

133. Part of the estate of X, who died on November 30, 1930, consisted of £5,000 Victory Bonds (Interest due March 1st and September 1st) which were valued for probate purposes at 96 These bonds were surrendered and accepted in part payment of Estate Duty (which was paid on January 1, 1931).

You are required to show how the surrender of the Victory Bonds and the accrued interest should be dealt with in the estate books. (*Chartered Accountants.*)

134 W. Brown by his Will bequeathed the following:—

"To my sister Jane, my freehold house."

"To my brother John, my collection of foreign stamps, free of legacy duty."

"To my nephew Phillip, my presentation gold watch, free of legacy duty"

"To my cook Sarah, an annuity of £50, free of legacy duty and income tax."

"To my butler Jenkins, £500, free of legacy duty"

"To the Home Counties Hospital, £1,000."

The residue of the estate was left to his sister Elizabeth.

The house was valued at £1,500, the stamp collection at £860, and the annuity at £540. The gold watch had been sold by the testator, realising £20.

After realisation of the assets (except the house and the stamp collection) and payment of testamentary expenses (including Estate Duty) and debts the funds in the hands of Brown's executor amounted to £1,458

Show how this should be distributed (*Chartered Accountants.*)

135. Within what time should legacies be paid?

A testator directs his executor to purchase an annuity of £52 per annum for an old servant How should this annuity be treated for Legacy Duty purposes and how will duty upon it be assessed? (*Chartered Accountants.*)